

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or the Whitewash Waiver or as to the action you should take, you should consult your licensed securities dealer or registered institution 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 and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares or other securities in the Company.



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)

**(I) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES
AT THE RIGHTS ISSUE PRICE OF HK\$0.10 PER RIGHTS SHARES ON THE
BASIS OF TWO (2) RIGHTS SHARES FOR EVERY FIVE (5) EXISTING SHARES
HELD ON THE RECORD DATE;
(II) APPLICATION FOR WHITEWASH WAIVER;
(III) RE-ELECTION OF DIRECTORS;
AND
(IV) NOTICE OF EGM**

Financial adviser to the Company



Guotai Junan Capital Limited

Underwriters to the Rights Issue



Guotai Junan Securities (Hong Kong) Limited

China Energy Conservation and
Environmental Protection (Hong Kong) Investment
Company Limited

Mr. Xu Shengheng

Ms. Chan Wai Kay Katherine

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



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 10 to 31 of this circular and a letter of recommendation from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 32 to 33 of this circular and a letter of advice from Asian Capital containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Whitewash Waiver is set out on pages 34 to 55 of this circular.

A notice convening the EGM to be held at Unit 3709-10, 37/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Tuesday, 13 June 2017 at 11 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you will be able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

It is expected that Shares will be dealt with on an ex-rights basis from Thursday, 15 June 2017 and dealings in the Rights Shares in their nil-paid form will take place from Wednesday, 28 June 2017 to Wednesday, 5 July 2017 (both days inclusive). If the Underwriters terminate the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived (as applicable), the Rights Issue will not proceed. Any dealings in the Shares or the nil-paid Rights Shares up to the date on which all the conditions of the Rights Issue are fulfilled or waived (as applicable) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers. It should be noted that the Underwriting Agreement in respect of the Rights Issue contains provisions entitling the Underwriters by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate the obligations of the Underwriters thereunder on the occurrence of certain events including force majeure. These events are set out in the paragraph headed "Underwriting Agreement" under the section headed "Letter from the Board" in this circular. If the Underwriters terminate the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed. In addition, the Rights Issue is conditional upon all conditions set out in the paragraph headed "Conditions of the Rights Issue" under the section headed "Letter from the Board" in this circular being fulfilled or waived (as applicable). In particular, Rights Issue is subject to the approval of the Whitewash Waiver by the Independent Shareholders at the EGM and the Whitewash Waiver having been granted by the Executive. If such conditions have not been satisfied or waived (as applicable) in accordance with the Underwriting Agreement on or before the time and dates specified therein, the Underwriting Agreement shall terminate and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save in respect of certain rights or obligations under the Underwriting Agreement including rights of the parties thereto in respect of any antecedent breach).

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

19 May 2017

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DEFINITIONS

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

“Acting in concert”	has the same meaning as ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 12 April 2017, in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
“Board”	the board of Directors
“Business Day(s)”	any day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CECEP Group”	China Energy Conservation and Environmental Protection Group (中國節能環保集團公司), a stated-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of State Council of the PRC
“CECEP (Hong Kong)”	China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited, a company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date, is a wholly-owned subsidiary of CECEP Group
“Closing Date”	the date falling on the third Business Day after the Latest Time for Acceptance
“Company”	China Ground Source Energy Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fits, approve the Whitewash Waiver by the Independent Shareholders and the re-election of Directors by the Shareholders

DEFINITIONS

“Excluded Shareholders”	Overseas Shareholders whom the Board, based on legal opinions provided by legal advisers, considers it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“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
“GTJA Securities”	Guotai Junan Securities (Hong Kong) Limited, a registered institution as defined in the SFO which is licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong branch share registrar and transfer office”	Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“IFA” or “Asian Capital”	Asian Capital (Corporate Finance) Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, who has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and give recommendation to the Independent Board Committee and the Independent Shareholders on whether to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors, who have no direct or indirect interest in the Whitewash Waiver, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, established for the purpose of advising the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and give recommendation to the Independent Shareholders on whether to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver. Mr. Zhao Youmin, being non-executive Director and director of the CECEP (Hong Kong) is having an interest in the Whitewash Waiver and therefore would not be a member of the Independent Board Committee
“Independent Shareholders”	the Shareholders other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse, and those who are involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver
“Irrevocable Undertakings”	the irrevocable undertakings dated 12 April 2017 given by CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse in favour of the Company and the Underwriters, as described in the paragraph headed “Irrevocable Undertakings” in the Letter from the Board in this circular
“Last Trading Day”	12 April 2017, being the last trading day of the Shares on the Stock Exchange prior to the issue of the Announcement
“Latest Time for Acceptance”	4:00 p.m. on Monday, 10 July 2017 or such later time or date as may be agreed between the Company and the Underwriters, being the latest time for acceptance of the offer of Rights Shares and if there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be postponed to the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.
“Latest Practicable Date”	16 May 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on the next Business Day after the Latest Time for Acceptance, or such later time or date as may be agreed between the Company and the Underwriters
“Listing Committee”	has the meaning ascribed to it under the GEM Listing Rules
“Mr. Xu”	Mr. Xu Shengheng, an executive Director and the joint Chairman of the Company
“Ms. Chan”	Ms. Chan Wai Kay Katherine, an executive Director of the Company
“Overseas Shareholders”	Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the Rights Issue prospectus
“Prospectus Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders
“Record Date”	Friday, 23 June 2017 or such other date as may be agreed between the Company and the Underwriters in accordance with the relevant regulations or requirements
“Relevant Period”	the period commencing on 12 October 2016, being the date falling on six months preceding 12 April 2017 (being the date of the Announcement), and ending on the Latest Practicable Date
“Rights Issue”	the proposed offer by the Company by way of rights of the Rights Shares at the Rights Issue Price pursuant to the Prospectus Documents and summarised in this circular
“Rights Issue Price”	the rights issue price of HK\$0.10 per Rights Share under the Rights Issue

DEFINITIONS

“Rights Share(s)”	not less than 1,150,550,046 new Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 1,323,758,046 new Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date) proposed to be allotted and issued by way of rights to the Qualifying Shareholders
“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented from time to time
“Share(s)”	the ordinary share(s) of US\$0.01 each in the issued share capital of the Company
“Shareholders”	the shareholders of the Company
“Share Options”	share options granted by the Company pursuant to the Share Option Scheme which entitled the holders to subscribe for new Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 28 July 2010
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriters”	collectively, CECEP (Hong Kong), Mr. Xu, GTJA Securities and Ms. Chan
“Underwriting Agreement”	the underwriting agreement dated 12 April 2017 entered into between the Company and the Underwriters in relation to the underwriting arrangement in respect of Rights Issue
“Underwritten Shares”	not less than 586,257,646 Rights Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 730,425,646 Rights Shares, being all Rights Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date), being all Rights Shares (other than those Rights Shares to be taken up under the Irrevocable Undertakings) underwritten by the Underwriters pursuant to the Underwriting Agreement

DEFINITIONS

“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of CECEP (Hong Kong) to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by CECEP (Hong Kong) and the parties acting in concert with it which may otherwise arise as a result of the subscription of the Underwritten Shares by CECEP (Hong Kong) pursuant to the Underwriting Agreement and/or the subscription of the Rights Shares by CECEP (Hong Kong) pursuant to any application for any excess Rights Shares accepted by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States
“%”	per cent

For illustration purposes only, exchange rate of RMB1.00 = HK\$1.1314 has been adopted. No representation is made that any amount in such currency could have been or could be converted at the above rate or at any other rate.

The English text of this circular, the notice of the EGM and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

The expected timetable of the Rights Issue is set out below:

2017

Despatch of circular with notice of EGM	Friday, 19 May
Latest time for lodging transfer of shares to qualify for attendance and voting at the EGM	4:30 p.m. on Tuesday, 6 June
Closure of register of members to determine the identity of the Shareholders entitled to attend and vote at the EGM (both days inclusive)	Wednesday, 7 June to Tuesday, 13 June
Expected time of the EGM	11:00 a.m. on Tuesday, 13 June
Announcement of poll results of the EGM	Tuesday, 13 June
Last day of dealings in the Shares on a cum-rights basis	Wednesday, 14 June
First day of dealings in the Shares on an ex-rights basis	Thursday, 15 June
Latest time for lodging transfers of Shares accompanied by the relevant title documents in order to qualify for the Rights Issue	4:30 p.m. on Friday, 16 June
Closure of register of members to determine the eligibility of the Rights Issue (both days inclusive)	Monday, 19 June to Friday, 23 June
Record Date for the Rights Issue	Friday, 23 June
Despatch of the Prospectus Documents	Monday, 26 June
First day of dealings in nil-paid Rights Shares	Wednesday, 28 June
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Friday, 30 June
Last day of dealings in nil-paid Rights Shares	Wednesday, 5 July
Latest time for acceptance of and payment for the Rights Shares and application for excess Rights Shares	4:00 p.m. on Monday, 10 July
Latest time for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 11 July
Announcement of results of the Rights Issue	Monday, 17 July

EXPECTED TIMETABLE

Refund cheques in respect of wholly or partially

unsuccessful applications for excess Rights Shares

to be despatched on or before Tuesday, 18 July

Share certificates of the Rights Shares to be posted on or before Tuesday, 18 July

Dealing in fully-paid Rights Shares commences 9:00 a.m. on Wednesday, 19 July

All times specified in this circular refer to Hong Kong local time. Dates or deadlines specified in this circular are indicative only and may be varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if there is a tropical cyclone warning signal no.8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 10 July 2017. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 10 July 2017. Instead the latest time of acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take place on Monday, 10 July 2017, the dates mentioned herein may be affected. The Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

LETTER FROM THE BOARD



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. An Yi (*Joint Chairman*)
Mr. Xu Shengheng (*Joint Chairman*)
Ms. Chan Wai Kay, Katherine (*Deputy Chairman*)
Mr. Wang Manquan (*Chief Executive Officer*)
Mr. Zang Yiran
Mr. Daiqi

Registered office:

P.O. Box 31119,
Grand Pavilion,
Hibiscus Way,
802 West Bay Road
Grand Cayman KY1-1205,
Cayman Islands

Non-executive Director:

Mr. Zhao Youmin

*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

Independent non-executive Directors:

Mr. Wu Desheng
Mr. Jia Wenzeng
Mr. Wu Qiang
Mr. Guo Qingui

19 May 2017

To the Independent Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES
AT THE RIGHTS ISSUE PRICE OF HK\$0.10 PER RIGHTS SHARE ON THE
BASIS OF TWO (2) RIGHTS SHARES FOR EVERY FIVE (5) EXISTING
SHARES HELD ON THE RECORD DATE;
(II) APPLICATION FOR WHITEWASH WAIVER;
(III) RE-ELECTION OF DIRECTORS;
AND
(IV) NOTICE OF EGM**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

LETTER FROM THE BOARD

The purpose of this circular is to provide you, among other things, (i) further details of the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Whitewash Waiver; (iii) a letter of advice from IFA to the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver; (iv) the re-election of Directors; and (v) a notice of the EGM.

The Independent Board Committee (comprising Mr. Wu Desheng, Mr. Jia Wenzeng, Mr. Wu Qiang and Mr. Guo Qingui) has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and give recommendation to the Independent Shareholders on whether to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver. Mr. Zhao Youmin, being non-executive Director and director of the CECEP (Hong Kong) is having an interest in the Whitewash Waiver and therefore would not be a member of the Independent Board Committee. Asian Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders thereon. Such appointment has been approved by the Independent Board Committee.

PROPOSED RIGHTS ISSUE

The Company proposed to raise not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million, before expenses, by way of issue of not less than 1,150,550,046 and not more than 1,323,758,046 Rights Shares pursuant to the Rights Issue on the basis of two (2) Rights Shares for every five (5) existing Shares in issue on the Record Date at the Rights Issue Price of HK\$0.10 per Rights Share. Particulars of the Rights Issue are as follows:

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	two (2) Rights Shares for every five (5) existing Shares held on the Record Date by the Qualifying Shareholders
Number of Shares in issue as of the Latest Practicable Date	:	2,876,375,117 Shares
Number of Rights Shares	:	1,150,550,046 Rights Shares, representing 40.0% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of the 1,150,550,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date)

LETTER FROM THE BOARD

1,323,758,046 Rights Shares, representing approximately 46.0% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of new Shares as a result of the exercise of all the outstanding options and the 1,323,758,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date other than issue of new Shares upon exercise in full of the subscription rights attached to all outstanding Share Options on or before the Record Date)

Aggregate nominal value of the Rights Shares	:	not less than US\$11,505,900.46 and not more than US\$13,237,580.46
Rights Issue Price:	:	HK\$0.10 per Rights Share
Number of Shares in issue immediately as enlarged following the completion of the Rights Issue	:	Not less than 4,026,925,163 Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 4,633,153,163 Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date)
Underwriters	:	(i) CECEP (Hong Kong); (ii) Mr. Xu; (iii) GTJA Securities; and (iv) Ms. Chan.
Number of Underwritten Shares to be underwritten by the Underwriters	:	Not less than 586,257,646 Rights Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 730,425,646 Rights Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date)
Amount to be raised before expenses	:	Not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million before expenses

LETTER FROM THE BOARD

As at the Latest Practicable Date, there are outstanding Share Options pursuant to the Share Option Scheme, to subscribe for an aggregate of 433,020,000 new Shares. Assuming full exercise of the subscription rights attaching to the outstanding Share Options on or before the Record Date, an additional 173,208,000 Rights Shares will be issued. Save as disclosed, there are no other outstanding options, warrants, convertible notes or other rights to subscribe for Shares as at the Latest Practicable Date.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. To the extent reasonably practicable, the Company will send copies of the Prospectus to each of the Excluded Shareholders for their information only. Please take special note that the Company will send the provisional allotment letter and the form of application for excess Rights Shares to the Qualifying Shareholders only.

The register of members of the Company will be closed from Monday, 19 June 2017 to Friday, 23 June 2017 (both days inclusive) to determine the eligibility of the Qualifying Shareholders. No transfer of Shares will be registered during the book closure period.

To qualify for the Rights Issue, a Shareholder or an investor must be: (i) registered as a member of the Company on the Record Date; and (ii) not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Qualifying Shareholders must lodge any transfer of Shares (with the relevant title documents) for registration with the Hong Kong branch share registrar and transfer office by 4:30 p.m. on Friday, 16 June 2017. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The last day for dealing in the Shares on a cum-rights basis will be on Wednesday, 14 June 2017. The Shares will be dealt with on an ex-rights basis from Thursday, 15 June 2017.

The latest time for acceptance of and payment for the Rights Shares is expected to be at 4:00 p.m. on Monday, 10 July 2017.

Qualifying Shareholders who take up their pro rata entitlement under the Rights Issue in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up his, her or its entitlement in full under the Rights Issue, his, her or its proportionate shareholding in the Company will be diluted.

Rights of the Excluded Shareholders

The Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 17.41 (1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the Rights Issue to the Shareholders whose names appear on the register of members of the Company in Hong Kong on the Record Date but whose addresses are in places outside of Hong Kong, and if, having made such enquiry, the Directors consider that it is necessary or expedient not to extend the Rights Issue to these Shareholders on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the

LETTER FROM THE BOARD

relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to the Excluded Shareholders and the Company will disclose the explanation for such exclusion in the Prospectus. The Company will only send the Prospectus to the Excluded Shareholders for their information.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained, proceeds of each sale, less expenses and stamp duty, above HK\$100 will be distributed by the Company to the relevant Excluded Shareholders pro rata to their shareholdings on the Record Date (but rounded down to the nearest cent) in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold nil-paid Rights Shares of the Excluded Shareholders will be made available for excess application by the Qualifying Shareholders.

Rights Issue Price

The Rights Issue Price is HK\$0.10 per Rights Share and is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the relevant Rights Shares.

The Rights Issue Price represents:

- (a) a discount of approximately 42.53% to the closing price of approximately HK\$0.174 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 58.33% to the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 57.45% to the average closing price of approximately HK\$0.235 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 55.36% to the average closing price of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 79.38% to the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2016 of approximately HK\$0.485 (based on the audited consolidated net assets of the Group of approximately HK\$1,395,847,000 and 2,876,375,117 Shares in issue as at the Latest Practicable Date); and
- (f) a discount of approximately 50.00% to the theoretical ex-rights price of approximately HK\$0.200 based on the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day (assuming no outstanding Share Options being exercised on or before the Record Date).

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The Rights Issue Price was determined by the Directors with reference to the amount of fund targeted to be raised by the Company, the market price of the Shares under the prevailing market conditions and the current financial position of the Group. The Directors consider that the discount on the Rights Issue Price is appropriate and the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole as the Company will be able to raise funds whilst at the same time, the Rights Issue gives the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical market price of the Shares.

Basis of provisional allotments

Two (2) Rights Shares (in nil-paid form) for every five (5) existing Shares held by Qualifying Shareholders on the Record Date. Any holdings (or balance of holdings) of less than five (5) Shares will not entitle their holders to be provisionally allotted two (2) Rights Shares. Please refer to the arrangement as referred to in the paragraph headed “Fractional entitlements” below.

Application for all or any part of a Qualifying Shareholder’s provisional allotment should be made by completing a Provisional allotment letter and lodging the same with a remittance for the Rights Shares being applied for with the Registrar by the latest time for payment for and acceptance of the Rights Shares.

Fractional entitlements

The Company will not provisionally allot and will not accept applications for any fractions of Rights Shares. All fractions of the Rights Shares will be aggregated (and rounded down to the nearest whole number) and all nil-paid Rights Shares arising from such aggregation will be sold in the market and the proceeds will be retained by the Company for its own benefit, if a premium (net of expenses and stamp duty) can be obtained. Any such unsold aggregated fractions of nil-paid Rights Shares will be made available for excess application by the Qualifying Shareholders. No odd lot matching services will be provided.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid in respect thereof on or after the date of allotment and issue of such Rights Shares.

Application for excess Rights Shares

Under the Rights Issue, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application can be made by Qualifying Shareholders only and only by completing the excess application form for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will, upon consultation with the Underwriters, allocate the excess Rights Shares at their

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discretion on a fair and equitable basis according to the principle that any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of excess Rights Shares applied for, but no reference will be made to the number of Rights Shares applied for under a provisional allotment letter or the existing number of Shares held by such Qualifying Shareholders. If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders under the provisional allotment letters is greater than the aggregate number of excess Rights Shares applied for through forms of application for excess Rights Shares, the Directors will allocate in full to each Qualifying Shareholder the number of excess Rights Shares applied for under the forms of application for excess Rights Shares. No preference will be given to topping up odd lots to whole board lots.

In applying the above principles, reference will only be made to the number of excess Rights Shares being applied for.

Investors with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually save and except the beneficial owner (s) which the Company shall permit in its absolute discretion. Investors with their Shares held by a nominee company (or which are deposited in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner (s) on or prior to the Record Date.

Investors whose Shares are held by their nominee (s) (or which are deposited in CCASS) and who would like to have their names registered on the register of members of the Company on the Record Date, must lodge all necessary documents with the Registrar for completion of the relevant registration by 4:30 p.m. on Friday, 16 June 2017.

Share Certificates for the Rights Shares and refund cheques

Subject to fulfilment of the conditions of the Rights Issue as set out below, share certificates for the fully-paid Rights Shares are expected to be despatched by ordinary post on or before Tuesday, 18 July 2017 to those persons who have validly accepted and paid for the Rights Shares and those successful applicants for the excess Rights Shares to the registered address or, in case of joint applicants, to the registered address of the applicant whose name first appears in the register of members of the Company in Hong Kong or, as the case may be, the transfer form, at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) will be despatched on or before Tuesday, 18 July 2017 by ordinary post to the addresses as aforesaid at the respective applicants' own risks.

Conditions of the Rights Issue

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement. The conditions to the Underwriting Agreement are set out in the sub-section headed "Conditions of the Underwriting Agreement" below.

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If the conditions of the Underwriting Agreement which include, but not limited to, the granting of the Whitewash Waiver to CECEP (Hong Kong) by the Executive, are not fulfilled or waived, the Rights Issue will not proceed.

Application for listing

The Company will apply to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid form. The nil-paid and fully paid Rights Shares will be traded in same board lots of 8,000.

No part of the Shares for which listing or permission to deal is being or is proposed to be sought, is listed, or dealt in on any other stock exchange.

Rights Shares will be eligible for admission into CCASS

Subject to the listing of and permission to deal in all the Rights Shares in both nil-paid and fully-paid form on the Stock Exchange being granted, the Rights Shares in both nil-paid and fully-paid form will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

THE UNDERWRITING AGREEMENT

On 12 April 2017 (after trading hours), the Underwriters and the Company entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The principal terms of the Underwriting Agreement are as follows:

Date: 12 April 2017 (after trading hours)

Underwriters:

- (i) CECEP (Hong Kong);
- (ii) Mr. Xu;
- (iii) GTJA Securities; and

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	(iv) Ms. Chan
Number of Underwritten Shares:	The Underwriters have conditionally agreed pursuant to the Underwriting Agreement to underwrite the Underwritten Shares on a fully underwritten basis, being not less than 586,257,646 Rights Shares and not more than 730,425,646 Rights Shares, subject to the terms and conditions of the Underwriting Agreement.
Underwriting commitment:	The Underwritten Shares shall be underwritten on the following basis: (i) 40% of the Underwritten Shares by CECEP (Hong Kong); (ii) 40% of the Underwritten Shares by Mr. Xu; (iii) 15% of the Underwritten Shares by GTJA Securities; and (iv) 5% of the Underwritten Shares by Ms. Chan
Underwriting commission or fees:	2.5% of the aggregate subscription price in respect of the Underwritten Shares to be underwritten by GTJA Securities (for avoidance of doubt, it shall mean the maximum number of the Underwritten Shares to be underwritten by GTJA Securities, regardless whether or not it is called upon to subscribe or procure subscribers for any such Underwritten Shares). No commission will be paid to CECEP (Hong Kong), Mr. Xu and Ms. Chan. The commission rate was determined after arm's length negotiations between the Company and the Underwriters with reference to, among other things, the scale of the Rights Issue and market rate. The Board considers that the underwriting commission rate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.
Conditions:	Please refer to the paragraph headed "Conditions" below.
Latest Time for Termination:	4:00 p.m. on the next Business Day following (but excluding) the Latest Time For Acceptance or such later time or date as may be agreed between the Underwriters and the Company in writing, being the latest time to terminate the Underwriting Agreement.

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Termination

If, prior to the Latest Time For Termination:

- (i) in the opinion of the Underwriters, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the signing of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriters, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
 - (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (ii) there is any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this Clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the

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United States of America) occurs which, in the reasonable opinion of the Underwriters, makes it inexpedient or inadvisable to proceed with the Rights Issue; or

- (iii) any material breach of any of the warranties or undertakings contained in Clause 10 of the Underwriting Agreement comes to the knowledge of the Underwriters,

the Underwriters shall be entitled, by notice in writing to the Company served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Company has attempted to procure an independent third party underwriter to fully underwrite the Underwritten Shares, but it expressed no interest. The existing underwriting arrangement was reached after arm's length negotiation and commercial dealings between the Company and the Underwriters, which have taken into account the trading volume of the Company and the benefits and risks of being an Underwriter. The Directors consider that the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on the Underwriters

CECEP (Hong Kong) is a company incorporated in Hong Kong with limited liability.

As at the Latest Practicable Date, the directors of CECEP (Hong Kong) are Mr. Zhao Youmin, Mr. Du Le, Ms. Wang Lijuan and Ms. Xu Genghong.

As at the Latest Practicable Date, CECEP (Hong Kong) is a wholly-owned subsidiary of CECEP Group. The directors of CECEP Group are Liu Dashan, Wang Tongzhou, Wu Taishi, Zhang Xiaolu, Ju Zhanghua, Liu Maoxun, Jia Changbin, Jiang Kaixi and Zhu Min.

CECEP (Hong Kong) is principally engaged in the investment in the Hong Kong, Singapore and other capital markets focusing equity investment in energy conservation and environmental protection industry and engaged in environmental consultancy services as well as financing and capital services. Its ordinary course of business does not include underwriting.

As at the Latest Practicable Date, CECEP (Hong Kong) holds 850,000,000 Shares (representing 29.55% of the existing issued share capital of the Company) and therefore a substantial shareholder of the Company.

Mr. Xu is the joint chairman of the Board and an executive Director and is interested in aggregate of 509,021,000 Shares (representing 17.70% of the existing issued share capital of the Company).

Ms. Chan is an executive Director and is interested in aggregate of 51,710,000 Shares (representing 1.80% of the existing issued share capital of the Company).

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GTJA Securities is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

To the best of the Director' knowledge, information and belief having made all reasonable enquiries, GTJA Securities and its associates are third parties independent of and not connected with (within the meaning under GEM Listing Rules), the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries and their respective associates.

Conditions

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (a) the approval by the Independent Shareholders of the Whitewash Waiver by way of poll at the EGM in accordance with the Takeovers Code;
- (b) the grant by the Executive, and not having withdrawn or revoked such grant, of the Whitewash Waiver, and the fulfilment of all conditions, of any, attached to it;
- (c) the listing committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms);
- (d) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and where necessary, the filing of all documents relating to the Rights Issue with the Registrar of Companies in the Cayman Islands in accordance with the Companies Law of the Cayman Islands;
- (e) the posting of the Prospectus to the Shareholders on the Company's registrar of members on the Record Date and the posting of provisional allotment letter and form of application for excess Rights Shares to the Qualifying Shareholders;
- (f) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement; and
- (g) the Underwriters having received on or before the date of the Underwriting Agreement the Irrevocable Undertakings duly executed by each of CECEP (Hong Kong), Mr. Xu, Mr. Xu's spouse and Ms. Chan and Ms. Chan's spouse.

As at the Latest Practicable Date, only condition (g) has been fulfilled.

Neither the Company nor the Underwriters may waive the conditions (c) to (e) set out above. The Underwriters may waive conditions (f) and (g) set out above in whole or in part by written notice to the Company. CECEP (Hong Kong) may in its absolute discretion waive conditions (a) and (b) set out above by notice in writing to the Company.

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In the case where the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, CECEP (Hong Kong) reserves its right as to whether or not to waive condition (a) and (b). If CECEP (Hong Kong) waives such conditions, it will comply with the provisions of the Takeovers Code to make a general offer under Rule 26.1 of the Takeovers Code conditional upon there being an obligation on CECEP (Hong Kong) to make a general offer under Rule 26.1 of the Takeovers Code upon completion of the Right Issue.

If the conditions of the Underwriting Agreement are not satisfied and/or waived in whole or in part by the Underwriters (or CECEP (Hong Kong), as the case may be), by the Latest Time for Acceptance or such later date or dates as the Underwriters may agree with the Company in writing, the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed.

Irrevocable Undertakings

As at the Latest Practicable Date, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares (representing approximately 29.55% of the existing issued share capital of the Company); (ii) Mr. Xu and his spouse are interested in an aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan and her spouse are interested in an aggregate of 51,710,000 Shares (representing approximately 1.80% of the existing issued share capital of the Company). CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse have executed the Irrevocable Undertakings in favour of the Company and the Underwriters, pursuant to which, among other things, each of CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse irrevocably undertaken that the Shares beneficially owned by them on the date of the Irrevocable Undertakings will remain beneficially owned by them on the Record Date and each of them has irrevocably undertaken to lodge application and pay for their respective provisional allotments of the Rights Shares under the Rights Issue (being an aggregate of 564,292,400 Rights Shares). Each of Mr. Xu and Ms. Chan has further irrevocably and unconditionally undertaken to the Company and the Underwriters that they would not exercise any of Share Option vested to each of them on or before the Latest Time for Acceptance.

Save for the Irrevocable Undertakings, the Company has not obtained undertakings from any other Shareholders that they will subscribe for any or all of the Rights Shares to be provisionally allotted to them.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately before and after the completion of the Rights Issue is set out below:

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(a) Assuming no outstanding Share Options being exercised on or before the Record Date:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue assuming all Shareholders take up their respective entitlements to the Rights Shares in full		Immediately after completion of the Rights Issue assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken up by the Underwriters	
	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>
CECEP (Hong Kong)	850,000,000	29.55%	1,190,000,000	29.55%	1,424,503,058	35.37%
Mr. Xu and his spouse (<i>Note 1</i>)	509,021,000	17.70%	712,629,400	17.70%	947,132,459	23.52%
Ms. Chan and her spouse (<i>Note 2</i>)	<u>51,710,000</u>	<u>1.80%</u>	<u>72,394,000</u>	<u>1.80%</u>	<u>101,706,882</u>	<u>2.53%</u>
Sub-total	1,410,731,000	49.05%	1,975,023,400	49.05%	2,473,342,399	61.42%
GTJA Securities (<i>Note 3</i>)	–	–	–	–	87,938,647	2.18%
Other Shareholders	<u>1,465,644,117</u>	<u>50.95%</u>	<u>2,051,901,763</u>	<u>50.95%</u>	<u>1,465,644,117</u>	<u>36.40%</u>
Total	<u><u>2,876,375,117</u></u>	<u><u>100.0%</u></u>	<u><u>4,026,925,163</u></u>	<u><u>100.0%</u></u>	<u><u>4,026,925,163</u></u>	<u><u>100.0%</u></u>

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(b) Assuming the outstanding Share Options being exercised in full on or before the Record Date:

	As at the Latest Practicable Date		Immediately after all the outstanding Share Options are exercised but before the completion of the Rights Issue		Immediately after completion of the Rights Issue assuming all Shareholders take up their respective entitlements to the Rights Shares in full		Immediately after completion of the Rights Issue assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken up by the Underwriters	
	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>
CECEP (Hong Kong)	850,000,000	29.55%	850,000,000	25.68%	1,190,000,000	25.68%	1,482,170,258	31.99%
Mr. Xu and his spouse (Note 1)	509,021,000	17.70%	542,621,000	16.40%	759,669,400	16.40%	1,051,839,659	22.70%
Ms. Chan Wai Kay Katherine and her spouse (Note 2)	51,710,000	1.80%	90,710,000	2.74%	126,994,000	2.74%	163,515,282	3.53%
Sub-total	1,410,731,000	49.05%	1,483,331,000	44.82%	2,076,663,400	44.82%	2,697,525,199	58.22%
GTJA Securities (Note 3)	-	-	-	-	-	-	109,563,847	2.36%
Other Shareholders	1,465,644,117	50.95%	1,826,064,117	55.18%	2,556,489,763	55.18%	1,826,064,117	39.41%
Total	2,876,375,117	100.0%	3,309,395,117	100.0%	4,633,153,163	100.0%	4,633,153,163	100.0%

Notes:

- Mr. Xu is an executive Director and the joint Chairman of the Company and is directly interested in 508,319,000 Shares. Mr. Xu's spouse is directly interested in 702,000 Shares.
- Ms. Chan is an executive Director and is directly interested in 41,636,000 Shares. Ms. Chan's spouse is directly interested in 10,074,000 Shares.
- In circumstances where the Rights Issue has become unconditional and GTJA Securities, as one of the Underwriters, is obliged to take up all its commitment to the relevant number of Underwritten Shares in accordance with the Underwriting Agreement, its underwriting commitment would amount to a stake from approximately 2.18% to 2.36% (as the case may be) of the share capital of the Company as enlarged by the issue of the Rights Shares.

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4. As a result of the completion of the Rights Issues and assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares in aggregate pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken by the Underwriters, Mr. Xu's shareholding interest in the Company would be 20% or more and hence he would be presumed to be a party acting in concert with CECEP(Hong Kong) (which also holds 20% or more of Shares in the Company) under the presumption in class 1 of the definition of "acting in concert" under the Takeovers Code (the "Class 1 Presumption"), unless such presumption is rebutted. An application was made by the Company to rebut the Class 1 Presumption and on 24 February 2017, the Executive issued a ruling that based on the information provided and representations made in the application by the Company, the Class 1 Presumption was rebutted.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

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.

The estimated net proceeds from the Rights Issue (after deducting all estimated expenses) will be not less than approximately HK\$112.1 million and not more than approximately HK\$129.3 million which will be used for the general working capital of the Group. This covers two major aspects: (i) approximately 40%-50% will be used on the payment of operational expenses, such as payment of salaries and rents, general operational expenses etc, and (ii) approximately 50%-60% will be used on project-based related expenses, including but not limited to purchasing equipment for the project implementation and construction.

Having considered other fund raising alternatives for the Group, including issuance of debt securities and Share placements and taking into account the benefit and costs of each alternative, the Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

The estimated expenses of the Rights Issue will be not less than HK\$3.0 million and not more than HK\$3.1 million, which include underwriting commission and professional fees payable to the financial advisers, lawyers, financial printer and other parties involved in the Rights Issue and will be borne by the Company. The net subscription price per Rights Share (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) is expected to be approximately HK\$0.10.

Qualifying Shareholders who do not take up his, her or its entitlement in full under the Rights Issue and Excluded Shareholders should note that, his, her or its proportionate shareholding in the Company will be diluted upon the completion of the Rights Issue.

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POSSIBLE ADJUSTMENT TO THE SHARE OPTIONS

As a result of the Rights Issue, it is expected that the exercise prices, and/or the number of Shares, of the outstanding Share Options will be adjusted in accordance with the terms and conditions of the Share Option Scheme. The Company will engage the Company's auditors to review and determine the relevant adjustments and make further announcements on the appropriate adjustments and the date they are expected to take effect in due course.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Save for the Rights Issue, there have been no funds raised on any issue of Shares in the 12 months immediately preceding the Latest Practicable Date.

REGULATORY REQUIREMENTS

Takeover Code

Application for Whitewash Waiver

As at the Latest Practicable Date, CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company.

Pursuant to the Underwriting Agreement, CECEP (Hong Kong), as one of the Underwriters, has conditionally agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, CECEP (Hong Kong) will be required to take up the Underwritten Shares in accordance with the its agreed underwriting commitment pursuant to the Underwriting Agreement and the shareholding of CECEP (Hong Kong) upon completion of the Rights Issue would amount to approximately 35.37% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Under such circumstances, CECEP (Hong Kong) would be required to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company (other than those already owned or agreed to be acquired by CECEP (Hong Kong)) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

CECEP (Hong Kong) has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

As at the Latest Practicable Date, the Company does not believe that the Rights Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve

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the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the Circular. The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with applicable rules and regulations (including GEM Listing Rules).

It is a one of the conditions of the Underwriting Agreement and completion of the Rights Issue that the Whitewash Waiver is being granted by the Executive and approved by the Independent Shareholders. Pursuant to Underwriting Agreement, CECEP (Hong Kong) reserves its right as to whether or not to waive such condition. If the Whitewash Waiver is not approved by the Independent Shareholders and such condition is not waived by CECEP (Hong Kong), the Underwriting Agreement will not become unconditional and the Rights Issue may not proceed.

It is the intention of CECEP (Hong Kong) to continue to carry on the businesses of the Group and to continue the employment of the employees of the Group. CECEP (Hong Kong) has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group.

CECEP (Hong Kong)'s reservation of rights to waive the Whitewash Waiver

The grant and approval of the Whitewash Waiver is condition precedent to the Underwriting Agreement. In the case where the Whitewash Waiver is not granted or not approved by the Independent Shareholders, CECEP (Hong Kong) reserves its right as to whether or not to waive such condition. If CECEP (Hong Kong) waives such condition, it will comply with the provisions of the Takeovers Code to make a general offer under Rule 26.1 of the Takeovers Code conditional upon there being an obligation on CECEP (Hong Kong) to make a general offer under Rule 26.1 of the Takeovers Code upon completion of the Right Issue.

GEM Listing Rules

As at the Latest Practicable Date, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company; (ii) Mr. Xu is an executive Director and is interested in an aggregate of 509,021,000 Shares (representing 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan is an executive Director. Accordingly, each of CECEP (Hong Kong), Mr. Xu and Ms. Chan is a connected person of the Company and the transactions contemplated under the Underwriting Agreement constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.90 (2) of the GEM Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 10.31 (1) of the GEM Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Since the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not required to be conditional on approval by the Shareholders under Rule 10.29 of the GEM Listing Rules.

LETTER FROM THE BOARD

GENERAL

Under the Takeovers Code, the Whitewash Waiver would be conditional on, among other matters, approval by the Independent Shareholders at the EGM. The resolution proposed to be voted at the EGM will be conducted by way of poll.

Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, as each of CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse is interested in the Whitewash Waiver, they are required to abstain from voting on the resolution to be proposed at the EGM in relation to the Whitewash Waiver. Save for CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. Mr. Wang Manquan has informed the Company that he intended to vote for the Whitewash Waiver.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and give recommendation to the Independent Shareholders on whether to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver. Asian Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders thereon. Such appointment has been approved by the Independent Board Committee.

Upon the approval by the Independent Shareholders of the Whitewash Waiver at the EGM and having obtained the granting of the Whitewash Waiver by the Executive or CECEP (Hong Kong) waived the condition of the grant and approval of the Whitewash Waiver, the Prospectus or Prospectus Documents, as appropriate, containing further information on the Rights Issue will be dispatched to Shareholders as soon as practicable.

Reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code in accordance with Rule 3.8 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

LETTER FROM THE BOARD

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation."

Respective associates (as defined in the Takeovers Code including a person who owns or controls 5% or more of any class of relevant securities or any person who as a result of any transaction owns or controls 5% or more of any class of relevant securities) of the Company and CECEP (Hong Kong) are reminded to disclose their dealings in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

WARNING OF RISKS OF DEALINGS IN THE SHARES AND RIGHTS SHARES

The Rights Issue is conditional upon, among others, the Underwriting Agreement becoming unconditional and the Underwriters not terminating the Underwriting Agreement in accordance with its terms. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors are advised to exercise due caution when dealing with the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate its obligations on the occurrence of certain events including force majeure. Please refer to the paragraph headed "The Underwriting Agreement" under the section headed "Letter from the Board" in this circular above for further details.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Thursday, 15 June 2017. The Rights Shares will be dealt with in their nil-paid form from Wednesday, 28 June 2017 to Wednesday, 5 July 2017 (both days inclusive). Any Shareholders or other persons dealing in the Shares or in the Rights Shares in their nil-paid form up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be at 4:00 p.m. on Tuesday, 11 July 2017) will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing the Shares or Rights Shares in their nil-paid form who are in any doubt about their position are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

The register of members of the Company will be closed from Monday, 19 June 2017 to Friday, 23 June 2017 (both days inclusive) to determine the eligibility of the Qualifying Shareholders. No transfer of Shares will be registered during the book closure period. To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company in Hong Kong on the Record Date, which is currently expected to be Friday, 23 June 2017. In order to be registered as a member of the Company in Hong Kong on the Record Date, any transfer of Shares (together with the relevant title documents) must be lodged with the Hong Kong branch share registrar and transfer office for registration by 4:30 p.m. on Friday, 16 June 2017.

LETTER FROM THE BOARD

RE-ELECTION OF DIRECTORS

In accordance with Article 84(3) of the Articles, Mr. An Yi, Mr. Wu Qiang and Mr. Guo Qingui shall retire by rotation at the EGM, but being eligible, offer themselves for re-election. Details of Mr. An Yi, Mr. Wu Qiang and Mr. Guo Qingui are set out in Appendix III to this circular.

EGM

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

A notice convening the EGM to be held at Unit 3709-10, 37/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Tuesday, 13 June 2017 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you will be able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the Whitewash Waiver.

Your attention is also drawn to the letter from Asian Capital which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver and the principal reasons considered by it in arriving thereat. The text of the letter from Asian Capital is set out on pages 34 to 55 of this circular.

The Directors consider that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, 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 recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

The Directors also consider that the approval of the re-election of the Directors at the EGM are in the best interest of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular.

Yours faithfully,

For and on behalf of

China Ground Source Energy Industry Group Limited

Xu Shengheng

Joint Chairman & Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

19 May 2017

To the Independent Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES
AT THE RIGHTS ISSUE PRICE OF HK\$0.10 PER RIGHTS SHARE ON THE
BASIS OF TWO (2) RIGHTS SHARES FOR EVERY FIVE (5) EXISTING
SHARES HELD ON THE RECORD DATE; AND
(II) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to the circular dated 19 May 2017 issued by the Company (the “Circular”) of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and to recommend whether or not the Independent Shareholders should vote for the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver. The appointment of Asian Capital as the independent financial adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving at such advice, are set out on pages 34 to 55 of the Circular.

Your attention is also drawn to the “Letter from the Board” in the Circular and the other information set out in the appendices thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver taken into account the advice of Asian Capital, in particular the principal factors, reasons and recommendation as set out in its letter, we are of the opinion that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

Yours faithfully,

Independent Board Committee of

China Ground Source Energy Industry Group Limited

Mr. Wu Desheng

Mr. Jia Wenzeng

Mr. Wu Qiang

Mr. Guo Qingui

Independent non-executive Directors

LETTER FROM ASIAN CAPITAL

The following is the full text of the letter from Asian Capital (Corporate Finance) Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



Suite 601, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

*To the Independent Board Committee
and the Independent Shareholders of
China Ground Source Energy Industry Group Limited*

19 May 2017

Dear Sirs,

**(1) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES
AT THE RIGHTS ISSUE PRICE OF HK\$0.10 PER RIGHTS SHARE
ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY
FIVE (5) EXISTING SHARES HELD ON THE RECORD DATE
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, details of which are set out in the Announcement and the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 19 May 2017 (the “**Circular**”), of which this letter forms part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, the Company proposes to raise not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million, before expenses, by way of issue not less than 1,150,550,046 Rights Shares and not more than 1,323,758,046 Rights Shares at the Rights Issue Price of HK\$0.10 per Rights Share on the basis of two (2) Rights Shares for every five (5) existing Shares held by the Qualifying Shareholders on the Record Date.

LETTER FROM ASIAN CAPITAL

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date, the 1,150,550,046 Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represent approximately 40.00% of the issued share capital of the Company as at the Latest Practicable Date, and will represent approximately 28.57% of the then issued share capital of the Company as enlarged by the allotment and issue of the 1,150,550,046 Rights Shares.

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attached to all outstanding Share Options on or before the Record Date, the 1,323,758,046 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represent approximately 46.02% of the issued share capital of the Company as at the Latest Practicable Date, and will represent approximately 28.57% of the then issued share capital of the Company as enlarged by the allotment and issue of new Shares as a result of the exercise of all the outstanding Share Options and the 1,323,758,046 Rights Shares. Further details including the terms of the Rights Issue are set out in the section headed “Terms of the Rights Issue” in the Letter from the Board.

On 12 April 2017, the Underwriters and the Company entered into the Underwriting Agreement, pursuant to which the Underwriters have conditionally undertaken to the Company to underwrite the Underwritten Shares on a fully underwritten basis, being not less than 586,257,646 Rights Shares and not more than 730,425,646 Rights Shares, subject to the terms and conditions thereof. The obligations of the Underwriters to underwrite the Underwritten Shares are conditional on the satisfaction of the conditions referred to in the paragraph headed “Conditions” under the section headed “The Underwriting Agreement” in the Letter from the Board. If the conditions of the Underwriting Agreement are not satisfied and/or waived in whole or in part by the Underwriters (or CECEP (Hong Kong), as the case may be), the Rights Issue will not proceed. Further details of the Underwriting Agreement are set out in the section headed “The Underwriting Agreement” in the Letter from the Board.

CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse have executed the Irrevocable Undertakings in favour of the Company and the Underwriters, pursuant to which, among other things, each of CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse irrevocably undertaken that the Shares beneficially owned by them on the date of the Irrevocable Undertakings will remain beneficially owned by them on the Record Date and each of them has irrevocably undertaken to lodge application and pay for their respective provisional allotments of the Rights Shares under the Rights Issue (being an aggregate of 564,292,400 Rights Shares). Each of Mr. Xu and Ms. Chan has further irrevocably and unconditionally undertaken to the Company and the Underwriters that they would not exercise any of the Share Option vested to each of them on or before the Latest Time for Acceptance. Further details of the Irrevocable Undertakings are set out in the paragraph headed “Irrevocable Undertakings” under the section headed “The Underwriting Agreement” in the Letter from the Board.

Pursuant to Rule 10.29 of the GEM Listing Rules, since the Rights Issue would neither increase the number of issued Shares nor the market capitalisation of the Company by more than 50%, the Rights Issue is not conditional on the approval by the Shareholders. However, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM is required under the Takeovers Code and is a condition precedent to the Underwriting Agreement.

LETTER FROM ASIAN CAPITAL

As at the Latest Practicable Date, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the existing issued share capital of the Company; (ii) Mr. Xu is an executive Director and is interested in an aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan is an executive Director and is interested in an aggregate of 51,710,000 Shares (representing approximately 1.80% of the existing issued share capital of the Company). Accordingly, each of CECEP (Hong Kong), Mr. Xu and Ms. Chan is a connected person of the Company and the transactions contemplated under the Underwriting Agreement constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.90 (2) of the GEM Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 10.31 (1) of the GEM Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Pursuant to the Underwriting Agreement, CECEP (Hong Kong), as one of the Underwriters, has conditionally agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, CECEP (Hong Kong) will be required to take up the Underwritten Shares in accordance with its agreed underwriting commitment pursuant to the Underwriting Agreement and the shareholding of CECEP (Hong Kong) upon completion of the Rights Issue would amount to approximately 35.37% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Under such circumstances, CECEP (Hong Kong) would be required to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company (other than those already owned or agreed to be acquired by CECEP (Hong Kong)) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, Mr. Xu, as one of the Underwriters, would be required to take up the Underwritten Shares in accordance with his agreed underwriting commitment pursuant to the Underwriting Agreement, and he would be interested in 20% or more of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Hence, he would be presumed to be a party acting in concert with CECEP (Hong Kong) (which also holds 20% or more of Shares in the Company) under the presumption in class 1 of the definition of "acting in concert" under the Takeovers Code (the "**Class 1 Presumption**"), unless such presumption is rebutted. An application was made by the Company to rebut the Class 1 presumption and on 24 February 2017, the Executive issued a ruling that based on the information provided and representations made in the application by the Company, the Class 1 Presumption was rebutted.

An application has been made by CECEP (Hong Kong) to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver (if granted) will be conditional upon, among other things, the approval of the Independent Shareholders at the

LETTER FROM ASIAN CAPITAL

EGM by way of poll, in which each of CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse shall abstain from voting on the relevant resolution. Save for CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse, no Shareholder is involved in or interested in the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. Mr. Wang Manquan had informed the Company that he intended to vote for the Whitewash Waiver.

It is one of the conditions of the Underwriting Agreement and the completion of the Rights Issue that the Whitewash Waiver is being granted by the Executive and approved by the Independent Shareholders. Pursuant to the Underwriting Agreement, CECEP (Hong Kong) reserves its right as to whether or not to waive such condition. If the Whitewash Waiver is not approved by the Independent Shareholders and such condition is not waived by CECEP (Hong Kong), the Underwriting Agreement will not become unconditional and the Rights Issue may not proceed.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established pursuant to the Takeovers Code to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and to recommend whether or not the Independent Shareholders should vote for the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

Reference is made to the announcement of the Company dated 20 April 2017. We, Asian Capital (Corporate Finance) Limited, have been appointed by the Company with the approval of the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders on how to vote at the EGM. Our appointment has been approved by the Independent Board Committee.

Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group, or CECEP (Hong Kong), or their respective substantial shareholders, or any parties acting in concert with any of them. We are not aware of any relationships or interests between us and the Group, or CECEP (Hong Kong), or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any parties acting, or presumed to be acting, in concert with any of them as at the Latest Practicable Date. We are independent to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, inter alia, the Announcement, the Circular, the Underwriting Agreement, the Irrevocable Undertakings and the annual reports of the Company for each of the two years ended 31 December 2015 and 31 December 2016 (the “**2015 Annual Report**” and the “**2016 Annual**

LETTER FROM ASIAN CAPITAL

Report", respectively). We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding, among others, the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon them in formulating our opinion, are true, accurate and complete in all material respects as of the date hereof.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date. Independent Shareholders will be notified of material changes to the information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and until the EGM.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely for their consideration of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors:

1. Background information 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. The Group also engaged in properties investment and development and commenced the trading business of air conditioning heat pump products in 2016.

LETTER FROM ASIAN CAPITAL

Table 1 below sets out certain financial information of the Group for each of the three years ended 31 December 2016 as extracted from the 2015 Annual Report and 2016 Annual Report.

Table 1: Financial information of the Group

	For the year ended 31 December		
	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Revenue			
– Shallow ground source energy	428,413	298,820	268,471
– Air conditioning heat pump	172,518	–	–
– Properties investment and development	18,122	20,534	15,130
Total revenue	619,053	319,354	283,601
Loss for the year	(31,629)	(48,106)	(48,959)
	As at 31 December		
	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Bank balances and cash	70,119	136,199	309,814
Current Assets	928,787	1,137,731	1,265,072
Net Current Assets	362,344	153,640	836,316
Total Assets	2,531,069	2,581,798	2,618,847
Net Assets	1,441,302	1,520,451	1,609,531

For the year ended 31 December 2015 (“FY 2015”)

For FY 2015, the Group recorded turnover of approximately HK\$319.35 million, demonstrating a year-on-year increase of approximately 12.61% from approximately HK\$283.60 million for the previous year. The Group generated revenue from the shallow ground source energy business segment and properties investment and development. Revenue from the shallow ground source energy business segment accounted for approximately 93.57% of the total revenue generated during the year and the increase in revenue was mainly due to additional sale and promotion efforts made by the Group.

The net loss of the Group for FY 2015 has demonstrated a slight decrease from approximately HK\$48.96 million for the previous year to approximately HK\$48.11 million, which was primarily due to the net effect of, among others, the aforesaid increase in turnover, and the increase in selling, distribution and administrative expenses.

LETTER FROM ASIAN CAPITAL

As at 31 December 2015, the net current assets and net assets of the Group were approximately HK\$153.64 million and approximately HK\$1,520.45 million, respectively. The Group's bank balances and cash also decreased from approximately HK\$309.81 million in the previous year end to approximately HK\$136.20 million as at 31 December 2015, which was mainly due to the funds used in investing activities.

For the year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded revenue of approximately HK\$619.05 million, representing an increase of approximately 93.85% as compared with HK\$319.35 million for FY 2015. Revenue from the shallow ground source energy business segment had increased by approximately 43.37% during the year from approximately HK\$298.82 million for the previous year to approximately HK\$428.41 million due to the fact that the Group promoted renewable energy heating in northern China vigorously, and obtained coal to electricity projects in Beijing and the surrounding areas. In addition, the Group commenced the trading business of air conditioning heat pump products to expand its scope of business, which contributed approximately HK\$172.52 million to the Group's total revenue during the year.

During the year ended 31 December 2016, the Group recorded a net loss of approximately HK\$31.63 million compared with net loss of approximately HK\$48.11 million for FY 2015, representing a decrease of approximately 34.25%. Based on the 2016 Annual Report, the decrease in net loss of the Company for the year ended 31 December 2016 was mainly due to the combined effect of (i) the aforesaid increase in turnover; (ii) decreased gross profit margin due to certain demonstration projects built with low gross profit and the entering into of the trading business of air conditioning heat pump products, which is a competitive business in the mainland China and inherent with low gross profit margin; and (iii) increase in selling and distribution expenses as more staffs were recruited for the promotion of business.

As at 31 December 2016, the net current assets and net assets of the Group were approximately HK\$362.34 million and approximately HK\$1,441.30 million, respectively. The Group's bank balances and cash also decreased from approximately HK\$136.20 million in the previous year end to approximately HK\$70.12 million as at 31 December 2016, which was mainly due to the funds used in investing activities.

2. Reasons for and the benefits of the Rights Issue and the use of proceeds

The gross proceeds from the Rights Issue will be not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million. The estimated expenses of the Rights Issue will be not less than HK\$3.0 million and not more than HK\$3.1 million, which include the underwriting commission and professional fees payable to the financial advisers, lawyers, financial printer and other parties involved in the Rights Issue and will be borne by the Company. The estimated net proceeds from the Rights Issue (after deducting all estimated expenses) will be not less than approximately HK\$112.1 million and not more than approximately HK\$129.3 million which will be used for the general working capital of the Group. This covers two major aspects: (i) approximately 40%-50% will be used on the payment of operational expenses,

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such as payment of salaries and rents, general operational expenses, etc, and (ii) approximately 50%-60% will be used on project-based related expenses, including but not limited to purchasing equipment for the project implementation and construction.

As stated in the 2016 Annual Report, president Xi Jinping raised six most concerning issues in 2016, the first one is the clean heating service in winter in Chinese northern region: to develop clean heating for the Chinese northern region has the significant relations on residents' warm winter, reducing the fog and haze, as well as the important content of revolution of energy production and consumption, and life style in rural area, which point out the clear direction for the Group's healthy development.

In 2016, the Group promoted renewable energy heating in northern China vigorously, and obtained coal to electricity projects in the Beijing and the surrounding areas. Such projects received high recognition and appreciation from leaders at all levels in the above region. The success is supported by increased revenue from the Group's shallow ground energy business segment. Revenue from such segment had increased from approximately HK\$298.82 million for the year ended 31 December 2015 to approximately HK\$428.41 million for the year ended 31 December 2016, representing an increase of approximately 43.37%. The Group also commenced the trading business of air conditioning heat pump products in 2016 and recorded a revenue of approximately HK\$172.52 million for the year ended 31 December 2016. Moreover, as disclosed in the 2016 Annual Report, the Group had expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow ground source energy as alternative energy for heating/cooling supply. Such projects had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow ground source energy as alternative energy. Substantial capital expenditures and expenses are expected to be incurred for the development and operation of its projects.

More sales and administrative staffs have been recruited to strengthen the Group's sale and promotion and secure additional projects during 2016. As such, despite the increase in revenue for the year ended 31 December 2016, the Group still recorded a net loss of approximately HK\$31.63 million (FY2015: net loss of approximately HK\$48.11 million), which was mainly due to the low gross profit recorded in the shallow ground energy and trading segment as discussed in the section headed "Background information of the Group". The bank and cash balance of the Group also decreased from approximately HK\$309.81 million as at 31 December 2014 to approximately HK\$70.12 million as at 31 December 2016.

Further, as discussed with the management of the Company, the Directors have considered other fund raising alternatives for the Group, including issuance of debt securities and Share placements and took into account the benefit and costs of each alternative, the Board considered that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, and the Qualifying Shareholders will have the opportunity to realise their nil-paid Rights Shares in the market, the Board considered that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

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Taking into consideration (i) the Group's funding requirements in the near future to support its expansion business; (ii) the proceeds from the Rights Issue would help to strengthen the working capital position of the Company; and (iii) the Rights Issue represents a preferred means for raising fund over other alternatives, we are of the view that the implementation of the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Rights Issue

Set out below are the principal terms of the Rights Issue.:

Basis of the Rights Issue:	two (2) Rights Shares for every five (5) existing Shares held on the Record Date by the Qualifying Shareholders
Rights Issue Price:	HK\$0.10 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date:	2,876,375,117 Shares
Number of Rights Shares:	1,150,550,046 Rights Shares, representing approximately 40.00% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.57% of the then issued share capital of the Company as enlarged by the allotment and issue of the 1,150,550,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date) 1,323,758,046 Rights Shares, representing approximately 46.02% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.57% of the then issued share capital of the Company as enlarged by the allotment and issue of new Shares as a result of the exercise of all the outstanding options and the 1,323,758,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attached to all outstanding Share Options on or before the Record Date)
Number of Shares in issue immediately as enlarged following the completion of the Rights Issue:	Not less than 4,026,925,163 Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 4,633,153,163 Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date)

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As at the Latest Practicable Date, there are outstanding Share Options pursuant to the Share Option Scheme, to subscribe for an aggregate of 433,020,000 new Shares. Assuming full exercise of the subscription rights attaching to the outstanding Share Options on or before the Record Date, an additional 173,208,000 Rights Shares will be issued. Save as disclosed, there are no other outstanding options, warrants, convertible notes or other rights to subscribe for Shares as at the Latest Practicable Date.

3.1 The Right Issue Price

The Rights Issue Price is HK\$0.10 per Rights Share and is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the relevant Rights Shares. The Rights Issue Price represents:

- (a) a discount of approximately 58.33% to the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**Last Closing Price**”);
- (b) a discount of approximately 57.45% to the average closing price of approximately HK\$0.235 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a discount of approximately 55.36% to the average closing price of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 79.38% to the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2016 of approximately HK\$0.485 (based on the audited consolidated net assets of the Group of approximately HK\$1,395,847,000 and 2,876,375,117 Shares in issue as at the date of the Announcement); and
- (e) a discount of approximately 50.00% to the theoretical ex-rights price of approximately HK\$0.200 based on the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day (assuming no outstanding Share Options being exercised on or before the Record Date).

Such Rights Issue Price was determined by the Directors with reference to the amount of fund targeted to be raised by the Company, the market price of the Shares under the prevailing market conditions and the current financial position of the Group.

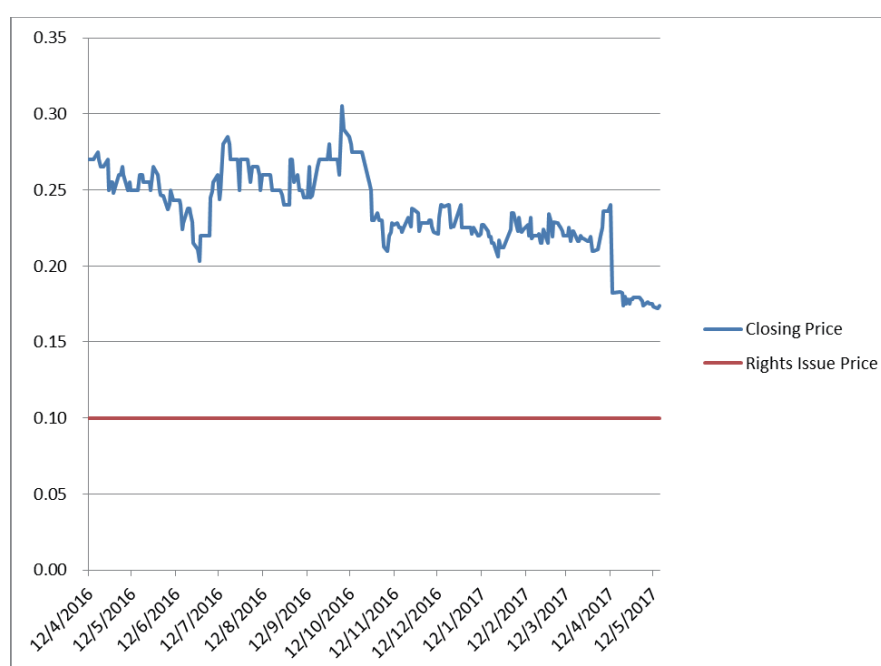
In assessing the fairness and reasonableness of the Rights Issue Price, we have primarily made references to (i) the historical performance of the Share price; (ii) the historical trading liquidity of the Shares; and (iii) a comparable analysis against other comparable rights issue exercises in the market (the “**Comparable Analysis**”), details of which are set out below respectively.

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3.1.1 Historical performance of the Share price

Chart 1 below sets out the daily closing prices of the Shares on the Stock Exchange for the period from 12 April 2016 (being the first trading day of the 12-month period prior to the Last Trading Day) up to and including the Latest Practicable Date (the “**Review Period**”). We consider the Review Period which covers a full year prior to the Underwriting Agreement, represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Rights Issue Price.

Chart 1: Share price performance against the Rights Issue Price during the Review Period



Source: The website of the Stock Exchange (<http://www.hkex.com.hk/>)

The Shares had been traded at above the Rights Issue Price throughout the Review Period. The daily closing price of the Shares during the Review Period ranged from the lowest of HK\$0.172 per Share on 15 May 2017 to the highest of HK\$0.305 per Share on 6 October 2016. The average closing price of Shares during the Review Period was approximately HK\$0.237 per Share, and the Rights Issue Price represents a discount of approximately 57.81% to the average closing price of Shares during the Review Period. The Rights Issue Price represents a discount to the closing price of the Shares throughout the Review Period and to the average closing price of the Shares. We noted that the Share price fluctuated during the Review Period.

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Despite the Rights Issue Price is set at a discount to the historical closing price of the Shares, taking into account that (a) it is not uncommon for listed issuers in Hong Kong to set the rights issue price at a discount to the closing prices in order to increase attractiveness of a rights issue, our comparable analysis set out below revealed that the rights issue price of 17 out of 18 Comparables were set at a discount to the respective closing share prices on the respective last trading days; (b) the Shares has been traded below the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2016 throughout the Review Period; and (c) the Company kept loss-making and it is necessary to offer a relatively deep discount under the Rights Issue in order to encourage Qualifying Shareholders to participate in the Rights Issue by taking up their respective entitlements and to maintain or to increase (by way of excess applications) their shareholdings in the Company and participate in the potential growth of the Group, we are of the view that the determination of the Rights Issue Price of HK\$0.10 per Rights Share is justifiable.

3.1.2 Historical trading liquidity of the Shares

Table 2 below shows the monthly statistics of the trading volume of the Shares during the Review Period.

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Table 2: Historical trading volume of the Shares

Month	Total monthly trading volume <i>(Number of Shares)</i>	Number of trading days	Average daily trading volume <i>(Approximate number of Shares)</i>	Total number of Shares in issue <i>(Note 1)</i>	Average daily trading volume over total number of Shares in issue <i>(Approximate %)</i>
2016					
April <i>(Note 2)</i>	17,812,000	20	890,600	2,876,375,117	0.031%
May	15,919,500	21	758,071	2,876,375,117	0.026%
June	18,406,000	21	876,476	2,876,375,117	0.030%
July	23,816,000	20	1,190,800	2,876,375,117	0.041%
August	13,688,000	22	622,182	2,876,375,117	0.022%
September	19,084,000	21	908,762	2,876,375,117	0.032%
October	22,188,000	19	1,167,789	2,876,375,117	0.041%
November	13,854,000	22	629,727	2,876,375,117	0.022%
December	13,954,000	20	697,700	2,876,375,117	0.024%
2017					
January	4,960,000	19	261,053	2,876,375,117	0.009%
February	15,450,000	20	772,500	2,876,375,117	0.027%
March	5,492,000	23	238,783	2,876,375,117	0.008%
April	48,415,420	17	2,847,966	2,876,375,117	0.099%
May (Up to and including the Latest Practicable Date)	13,472,110	10	1,347,211	2,876,375,117	0.047%

Source: The website of the Stock Exchange (<http://www.hkex.com.hk/>)

Notes:

1. Based on the number of the Shares in issue as of the last date of each of the respective months or that as at the Latest Practicable Date for May 2017.
2. Figures for April 2016 were computed on a full-month basis.

As illustrated in Table 2 above, the average daily trading volume of the Shares during the Review Period was generally low, with a range from approximately 0.008% to approximately 0.099% of the total number of Shares in issue as at the last date of the respective months during the Review Period.

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The relative low transaction volume of the Shares during the Review Period indicated the general thin liquidity of the Shares on the market. Without an active trading volume, Shareholders may not be able to sell their entire Shares timely at a more desirable price. Such difficulties in realising their share investments may lead to the potential difficulties in initiating the Qualifying Shareholders to participate in the Rights Issue should the Rights Issue price have been set at a premium or close to the Last Closing Price. The discount of the Rights Issue Price to the Last Closing Price would attract the Qualifying Shareholders to participate in the Rights Issue, which would in turn allow them to maintain their shareholding interests in, and participate in the future growth of the Company.

3.1.3 Comparison with other right issue exercises

Based on the information available from the Stock Exchange's website, having considered the recent volatility of the Hong Kong stock market, and in order to (i) include sufficient number of transactions for comparison purposes; and (ii) allow the Shareholders to have a general understanding of the recent rights issue transactions being conducted in the Hong Kong stock market, we have identified an exhaustive list of 18 of the rights issues (the "**Comparables**") announced by the companies listed on the main board or growth enterprise market of the Stock Exchange three months immediately preceding the Last Trading Day and up to the Latest Practicable Date. Despite the fact that the Comparables that we have identified are with different basis of entitlement that might not be exactly the same as the Rights Issue, we consider that the statistics of the Comparables as set out below, for illustration purpose only, can provide the Shareholders or potential investors of the Company, a general trend and data of rights issue exercises in the market to make decision with respect to the Rights Issue. In addition, Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables. We have not conducted any independent investigation with regard to the businesses and operations of the Comparables which shall not affect our analysis as we are comparing the general trend of rights issue exercises in the market with the Rights Issue.

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Summarised below is our relevant finding:

Table 3: A summary of the Comparables

Name of issuers	Stock code	Date of announcement	Basis of entitlement	Premium/(Discount) of rights issue price over/to the closing share price on the last trading day (Approximate %)	Premium/(Discount) of rights issue price over/to the theoretical ex-right price (Approximate %)	Premium/(Discount) of rights issue price over/to the consolidated net asset value per share (Note 1) (Approximate %)	Commission rate (Approximate %)	Maximum dilution (Note 2) (Approximate %)	Excess application (Note 3) (Yes/No)
Kirin Group Holdings Limited	8109	16/5/2017	5 for 2	(34.58)	(13.15)	9.38	1.50	71.43	Yes
Theme International Holdings Limited	990	4/5/2017	1 for 2	(29.91)	(22.15)	294.74	Nil	33.34	Yes
Quam Limited	952	28/4/2017	3 for 1	(7.56)	(1.79)	182.78	Nil	75.00	Yes
Epicurean and Company, Limited	8213	26/4/2017	1 for 2	(52.00)	(41.94)	Not applicable	Nil	33.33	Yes
						(Note 4)			
Xinyi Solar Holdings Limited	968	19/4/2017	1 for 10	(10.00)	(9.30)	143.21	Nil	9.26	Yes
Global Energy Resources International Group Limited	8192	29/3/2017	1 for 2	(21.05)	(15.01)	(23.47)	3.00	33.33	Yes
Hong Kong International Construction Investment Management Group Co., Limited	687	28/3/2017	2 for 1	0.99	0.33	56.92	2.50	66.67	Yes
Min Xin Holdings Limited	222	17/3/2017	3 for 10	(14.04)	(11.16)	(42.42)	Nil	23.09	Yes
C C Land Holdings Limited	1224	14/3/2017	1 for 2	(12.28)	(8.68)	(60.99)	0.30	33.33	Yes
						(Note 6)			
Lerado Financial Group Company Limited	1225	14/3/2017	2 for 1	(36.31)	(15.91)	(87.37)	1.50	66.67	Yes
China Kingstone Mining Holdings Limited	1380	3/3/2017	5 for 1	(44.70)	(11.89)	(70.44)	2.00	83.33	No
Food Idea Holdings Limited	8179	28/2/2017	1 for 1	(17.65)	(9.68)	(57.19)	0.25	50.00	Yes
Golden Power Group Holdings Limited	8038	20/2/2017	1 for 2	(59.18)	(49.37)	(60.59)	2.50	33.33	No
Global Tech (Holdings) Limited	143	26/1/2017	1 for 2	(30.90)	(23.08)	Not applicable	4.82	33.33	Yes
						(Note 4)			
AKM Industrial Company Limited	1639	25/1/2017	1 for 4	(16.67)	(14.06)	16.03	1.50	20.00	No
Vision Values Holdings Limited	862	24/1/2017	1 for 2	(38.98)	(29.96)	65.14	2.50	33.33	Yes
Landing International Development Limited	582	16/1/2017	5 for 1	(41.86)	(10.71)	(87.08)	2.25	83.33	Yes
						(Note 5)			
International Standard Resources Holdings Limited	91	16/1/2017	1 for 2	(43.75)	(34.16)	(72.81)	2.50	33.33	Yes
			Maximum	0.99	0.33	294.74		83.33	
			Minimum	(59.18)	(49.37)	(87.37)		9.26	
			Average	(28.36)	(17.87)	12.87		45.30	
The Company	8128	12/4/2017	2 for 5	(58.33)	(50.00)	(79.38)	2.50	28.58	Yes

Source: The website of the Stock Exchange (<http://www.hkex.com.hk/>)

Notes:

- For each of the Comparables, the consolidated net asset value per share was computed based on the latest reported consolidated net asset value attributable to the owners of the relevant company and the number of shares in issue as at the date of the relevant announcement or immediately before completion of the underlying proposed rights issue;
- Represents the maximum potential dilution in shareholding interests of the then existing public shareholders in the underlying issuer arising from each proposed rights issue, which was computed as (the number of new shares to be issued under the basis of entitlement)/(the number of existing shares held for the entitlement for the new shares under the basis of entitlement + the number of new shares to be issued under the basis of entitlement)*100%;

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3. Represents the availability of excess application (as defined under Rule 7.21(1) of the Rules Governing the Listing of Securities on the Stock Exchange or Rule 10.31(1) of the GEM Listing Rules) by the qualifying shareholders;
4. Not applicable as such Comparables (the “**Excluded Comparables**”) recorded net liabilities per share as at the date of the relevant announcement in relation to the underlying rights issue;
5. Represents the average of the two commission rates payable to the two underlying underwriters respectively; and
6. Fixed commission fee was adopted; the presented commission fee rate was computed based on the fixed commission fee, the subscription price per rights share and the total (maximum) number of underwritten shares as disclosed in the relevant announcement.

Based on the above table, we noted that the rights issue price of 17 out of 18 Comparables were set at a discount to the respective closing share prices on the respective last trading days. The rights issue price to the closing price on the respective last trading day prior to the rights issue announcement of the Comparables ranged from a premium of approximately 0.99% to a maximum discount of approximately 59.18%, with the mean at discount of approximately 28.36%. The discount of approximately 58.33% to the closing price per Share on the Last Trading Day as represented by the Rights Issue Price is close to the highest end of the said range, but falls within the range of the Comparables.

On the other hand, the rights issue prices to the theoretical ex-entitlement prices per share based on the respective last trading day prior to the rights issue announcement of the Comparables ranged from a premium of approximately 0.33% to a maximum discount of approximately 49.37%, with the mean at a discount of approximately 17.87%. Although the discount of the Rights Issue Price to the theoretical ex-entitlement price per Share of approximately 50.00% falls outside the range of the Comparables, it is very close to the highest end of the said range.

In addition, by excluding the Excluded Comparable which recorded net liabilities per share as at the date of the relevant announcement in relation to the underlying rights issue, the rights issue prices of 9 out of 16 Comparables were set at a discount to the respective consolidated net asset values per share. The rights issue prices of the Comparables represent a range from a discount of approximately 87.37% to a premium of approximately 294.74% to/over the respective consolidated net asset values per share, with a mean of a premium of approximately 12.87%. As such, the discount of the Rights Issue Price to the NAV per Share of approximately 79.38% falls within the range of the Comparables. The mean of the Comparables has been biased upward due to the exceptionally high premium of the rights issue price over NAV per share of several Comparables.

Taking into account the above, we consider that it is a common market practice for listed issuers in Hong Kong to conduct rights issue with a rights issue price that is lower than each of the prevailing share price, the theoretical ex-right price and the consolidated net asset value per share.

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3.1.4 Conclusion on the determination of the Rights Issue Price

Based on the analyses above, having considered (i) the generally thin liquidity of the Shares during the Review Period, which indicates the potential difficulties in initiating the Qualifying Shareholders to participate in the Rights Issue should the rights issue price have been set at a premium or close to the Last Closing Price; (ii) it is a common practice for listed issuers in Hong Kong to set the rights issue price at a discount to each of the prevailing share price, the theoretical ex-right price and the consolidated net asset value per share; (iii) the Group was at a loss-making position for the three years ended 31 December 2016 as discussed in the section headed “Background information of the Group” and funding is needed for its intended business expansion; (iv) the discounts of the Rights Issue Price would attract the Qualifying Shareholders to participate in the Rights Issue, which would in turn allow them to maintain their shareholding interests in, and participate in the future growth of the Company; and (v) the Rights Issue is available to all Qualifying Shareholders and therefore provide them with an equal opportunity to participate, we are of the view that the determination of the Rights Issue Price of HK\$0.10 per Rights Share is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.2 Application for Excess Rights Shares

As stated in the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares.

The Directors will, upon consultation with the Underwriters, allocate the excess Rights Shares at their discretion on a fair and equitable basis according to the principle that any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of excess Rights Shares applied for, but no reference will be made to the number of Rights Shares applied for under a provisional allotment letter or the existing number of Shares held by such Qualifying Shareholders. If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders under the provisional allotment letters is greater than the aggregate number of excess Rights Shares applied for through forms of application for excess Rights Shares, the Directors will allocate in full to each Qualifying Shareholder the number of excess Rights Shares applied for under the forms of application for excess Rights Shares. No preference will be given to topping up odd lots to whole board lots.

Considering the above, we are of the view that the terms of the Rights Issue, including the Rights Issue Price, are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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4. The Underwriting Agreement

On 12 April 2017, the Underwriters and the Company entered into the Underwriting Agreement, pursuant to which the Underwriters have conditionally undertaken to the Company to underwrite the Underwritten Shares on a fully underwritten basis, being not less than 586,257,646 Rights Shares and not more than 730,425,646 Rights Shares, subject to the terms and conditions thereof. The obligations of the Underwriters to underwrite the Underwritten Shares are conditional on (i) the satisfaction of the conditions referred to in the paragraph headed “Conditions” under the section headed “The Underwriting Agreement” in the Letter from the Board. If the conditions of the Underwriting Agreement are not satisfied and/or waived in whole or in part by the Underwriters (or CECEP (Hong Kong), as the case may be), the Rights Issue will not proceed.

GTJA will be entitled to receive an underwriting commission equal to 2.5% of the aggregate subscription price in respect of the Underwritten Shares to be underwritten by GTJA Securities (for avoidance of doubt, it shall mean the maximum number of the Underwritten Shares to be underwritten by GTJA Securities, regardless whether or not it is called upon to subscribe or procure subscribers for any such Underwritten Shares) pursuant to the Underwriting Agreement. No commission will be paid to CECEP (Hong Kong), Mr. Xu and Ms. Chan. The commission rate was determined after arm’s length negotiations between the Company and the Underwriters with reference to, among other things, the scale of the Rights Issue and market rate. With reference to the Comparables, we consider that the underwriting commission rate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Further details of the Underwriting Agreement are set out in the section headed “The Underwriting Agreement” in the Letter from the Board.

5. The Irrevocable Undertakings

CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse have executed the Irrevocable Undertakings in favour of the Company and the Underwriters, pursuant to which, among other things, each of CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse irrevocably undertaken that the Shares beneficially owned by them on the date of the Irrevocable Undertakings will remain beneficially owned by them on the Record Date and each of them has irrevocably undertaken to lodge application and pay for their respective provisional allotments of the Rights Shares under the Rights Issue (being an aggregate of 564,292,400 Rights Shares).

Each of Mr. Xu and Ms. Chan has further irrevocably and unconditionally undertaken to the Company and the Underwriters that they would not exercise any of Share Option vested to each of them on or before the Latest Time for Acceptance.

Save for the Irrevocable Undertakings, the Company has not obtained undertakings from any other Shareholders that they will subscribe for any or all of the Rights Shares to be provisionally allotted to them.

Further details of the Irrevocable Undertakings are set out in the paragraph headed “Irrevocable Undertakings” under the section headed “The Underwriting Agreement” in the Letter from the Board.

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6. Potential dilution in public shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. Qualifying Shareholders who take up their pro rata entitlement under the Rights Issue in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up his, her or its entitlement in full under the Rights Issue, his, her or its proportionate shareholding in the Company will be diluted.

In the case that no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up to 564,292,400 Shares pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken up by the Underwriters, assuming (i) no outstanding Share Options being exercised on or before the Record Date, shareholding interests of the public Shareholders will decrease from approximately 50.95% as at the Latest Practicable Date to approximately 36.40% immediately upon completion of the Rights Issue, representing a possible dilution of approximately 28.56% in their shareholding interests arising from the Rights Issue; (ii) outstanding Share Options being exercised in full on or before the Record Date, shareholding interests of the public Shareholders will decrease from 50.95% as at the Latest Practicable Date to 39.41% upon the completion of the Rights Issue, representing a possible dilution of approximately 22.65% in their shareholding interest arising from the Rights Issue. We have noted from the Letter from the Board that immediately after all the outstanding Share Options are exercised but before the Record Date, the public Shareholders interest in the Company will be 55.18%, which will result a dilution of approximately 28.58% of the public interest upon the completion of the Rights Issue. Please refer to the shareholding table under the section headed “Shareholding structure of the Company” for the changes in the shareholding structure of the Company arising from the Rights Issue.

We have made reference to the Comparables as contained in the section headed “3.1.3 Comparison with other rights issue exercises”, the possible maximum dilution effect of the public Shareholders interest in the Company (i.e. 28.58%) is within the range of the maximum dilution effect of the Comparables (from 9.26% to 83.33%), and is significantly lower than the average dilution of the Comparables (i.e. 45.30%).

Taking into account that (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue so as to maintain their respective shareholding interest in a lower price compared to the historical Share price; (ii) the dilution on the shareholdings of those Qualifying Shareholders who do not take up in full their assure entitlements under the Rights Issue is inevitable; (iii) the possible maximum dilution of the public shareholding of the Company is significantly lower than the average of the corresponding dilutions in public shareholding interests of the Comparables; (iv) Qualifying Shareholders have the opportunity to realize their nil-paid Rights Shares in the market; and (v) the net proceeds from the Rights Issue would enhance the financial position of the Group, we concur with the Directors that the potential dilution effect on the shareholding is acceptable and justifiable.

7. Financial effects of the Rights Issue

Effect on net tangible assets

Reference is made to the statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in Appendix II to the Circular. As at 31 December 2016, based on (i) the audited consolidated net tangible assets of the Group attributable to the Shareholders

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of approximately HK\$930.09 million; and (ii) the 2,876,375,117 Shares in issue, the audited consolidated net tangible assets per Share attributable to the Shareholders amounted to approximately HK\$0.323.

On the assumptions that completion of the Rights Issues had taken place on 31 December 2016 and 1,150,550,046 Rights Shares had been issued, immediately upon completion of the Rights Issue, (i) the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would become approximately HK\$1,042.12 million; and (ii) the number of Shares in issue would become 4,026,925,163 Shares, resulting in the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the Shareholders of approximately HK\$0.259.

On the assumptions that completion of the Rights Issues had taken place on 31 December 2016 and 1,323,758,046 Rights Shares had been issued, immediately upon completion of the Rights Issue, (i) the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would become approximately HK\$1,059.39 million; and (ii) the number of Shares in issue would become 4,200,133,163 Shares, resulting in the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the Shareholders of approximately HK\$0.252.

Effect on working capital

As advised by the Company, as the net proceeds from the Rights Issue will be used as general working capital of the Group, the working capital position of the Group would be improved upon completion of the Rights Issue.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

8. Whitewash Waiver

As at the Latest Practicable Date, CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the existing issued share capital of the Company. Pursuant to the Underwriting Agreement, CECEP (Hong Kong), as one of the Underwriters, has conditionally agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, CECEP (Hong Kong) will be required to take up the Underwritten Shares in accordance with its agreed underwriting commitment pursuant to the Underwriting Agreement and the shareholding of CECEP (Hong Kong) upon completion of the Rights Issue would amount to approximately 35.37% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Under such circumstances, CECEP (Hong Kong) would be required to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company (other than those already owned or agreed to be acquired by CECEP (Hong Kong)) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

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Pursuant to the Underwriting Agreement, assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, Mr. Xu, as one of the Underwriters, would be required to take up the Underwritten Shares in accordance with his agreed underwriting commitment pursuant to the Underwriting Agreement, and he would be interested in 20% or more of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date and hence he would be presumed to be a party acting in concert with CECEP (Hong Kong) (which also holds 20% or more of Shares in the Company) under the Class 1 Presumption, unless such presumption is rebutted. An application was made by the Company to rebut the Class 1 presumption and on 24 February 2017, the Executive issued a ruling that based on the information provided and representations made in the application by the Company, the Class 1 Presumption was rebutted.

Completion of the Rights Issue is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Independent Shareholders of relevant resolution by way of poll at the EGM. An application has been made by CECEP (Hong Kong) to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver (if granted) will be conditional upon, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which each of CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse shall abstain from voting on the relevant resolution. Save for CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse, no Shareholder is involved in or interested in the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Rights Issue may not proceed.

In light of (i) the reasons for the Rights Issue and the intended use of the net proceeds therefrom; and (ii) the terms of the Rights Issue and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval for the Whitewash Waiver, which is a condition for completion of the Rights Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

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RECOMMENDATIONS

Having considered the principal factors and reasons set out in this letter, we are of the view that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution in relation to the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
Asian Capital (Corporate Finance) Limited
Joseph Lam
Executive Director

1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for the three years ended 31 December 2016 and the three months ended 31 March 2017 are disclosed in the annual report of the Company for the year ended 31 December 2016 (pages 29 to 134) (<http://www.hkexnews.hk/listedco/listconews/GEM/2017/0403/GLN20170403335.pdf>), the annual report of the Company for the year ended 31 December 2015 (pages 29 to 132) (<http://www.hkexnews.hk/listedco/listconews/GEM/2016/0401/GLN20160401067.pdf>) and the annual report of the Company for the year ended 31 December 2014 (pages 33 to 136) (<http://www.hkexnews.hk/listedco/listconews/GEM/2015/0331/GLN20150331149.pdf>) and the first quarterly report for the three months ended 31 March 2016 (pages 6 to 15) (<http://www.hkexnews.hk/listedco/listconews/GEM/2017/0515/GLN20170515231.pdf>) respectively, which are also published on the Company's designated website (www.cgsenergy.com.hk).

The following is a summary of the consolidated financial information of the Group for each of the three years ended 31 December, 2014, 2015 and 2016, as extracted from the relevant annual reports of the Company, and the three months ended 31 March 2017, which is extracted from the first quarterly report of the Company for the three months ended 31 March 2017.

There were no exceptional items because of size, nature or incidence in the consolidated financial statements of the Company for each of the three years ended 31 December 2016 and the three months ended 31 March 2017.

The Company's auditors, SHINEWING (HK) CPA Limited, have not issued any qualified opinion on the Group's financial statements for the three years ended 31 December 2016.

	For the year ended 31 December 2016			Three months ended
	2016	2015	2014	31 March 2017
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	619,053	319,354	283,601	101,607
Profit/(Loss) before tax	(9,524)	(22,959)	(19,293)	5,580
Income tax expense	(22,105)	(25,147)	(29,666)	(2,730)
Profit/(Loss) for the year/period	<u>(31,629)</u>	<u>(48,106)</u>	<u>(48,959)</u>	<u>2,850</u>
Loss (profit) attributable to:				
Owners of the Company	(30,816)	(47,506)	(53,506)	4,099
Non-controlling interests	<u>(813)</u>	<u>(600)</u>	<u>4,547</u>	<u>(1,249)</u>
	<u>(31,629)</u>	<u>(48,106)</u>	<u>(48,959)</u>	<u>2,850</u>
Earnings/(Loss) per share	(1.07)	(1.64)	(1.84)	0.143
Dividend per share	-	-	-	-

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the audited consolidated financial statements of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	619,053	319,354
Cost of sales		<u>(508,454)</u>	<u>(199,621)</u>
Gross profit		110,599	119,733
Other income		55,469	96,995
Selling and distribution expenses		(31,076)	(28,931)
Administrative expenses		(122,208)	(121,798)
Fair value changes on investment properties		23,256	13,235
Other operating gains (expenses)		5	(946)
Impairment loss recognised in respect of trade receivables		(9,003)	(54,383)
Impairment loss recognised in respect of other receivables		—	(1,849)
Reversal of impairment loss recognised in respect of trade receivables in prior years		<u>4,238</u>	<u>1,260</u>
Profit from operations		31,280	23,316
Share of results of associates		483	(382)
Share of result of a joint venture		128	798
Share-based payment expenses		(5,309)	(7,747)
Finance costs		<u>(36,106)</u>	<u>(38,944)</u>
Loss before tax		(9,524)	(22,959)
Income tax expense	6	<u>(22,105)</u>	<u>(25,147)</u>
Loss for the year	7	<u><u>(31,629)</u></u>	<u><u>(48,106)</u></u>
Loss for the year attributable to:			
Owners of the Company		(30,816)	(47,506)
Non-controlling interests		<u>(813)</u>	<u>(600)</u>
		<u><u>(31,629)</u></u>	<u><u>(48,106)</u></u>
Loss per share	9		
Basic (HK cents)		<u><u>(1.07)</u></u>	<u><u>(1.64)</u></u>
Diluted (HK cents)		<u><u>(1.07)</u></u>	<u><u>(1.64)</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year	<u>(31,629)</u>	<u>(48,106)</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain (loss) on revaluation of leasehold land and buildings	<u>1,869</u>	<u>(8,138)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating foreign operations	(59,318)	(46,608)
Fair value (losses) gains on available-for-sale investments	(1,092)	138
Share of other comprehensive expense of a joint venture	(728)	–
Share of other comprehensive expense of associates	<u>(746)</u>	<u>(90)</u>
	<u>(61,884)</u>	<u>(46,560)</u>
Other comprehensive expense for the year	<u>(60,015)</u>	<u>(54,698)</u>
Total comprehensive expense for the year	<u><u>(91,644)</u></u>	<u><u>(102,804)</u></u>
Total comprehensive expense attributable to:		
Owners of the Company	(88,029)	(100,903)
Non-controlling interests	<u>(3,615)</u>	<u>(1,901)</u>
	<u><u>(91,644)</u></u>	<u><u>(102,804)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment		326,850	335,183
Investment properties		513,383	373,770
Deposits paid for acquisition of land use rights		119,965	86,621
Goodwill		465,760	465,760
Intangible assets		–	–
Interests in associates		36,579	29,737
Interest in a joint venture		6,766	7,366
Available-for-sale investments		98,289	106,203
Prepayments		8,371	12,537
Deferred tax assets		26,319	26,890
		<u>1,602,282</u>	<u>1,444,067</u>
Current Assets			
Inventories		60,925	39,795
Properties held for sale under development		88,546	118,688
Deposit paid for acquisition of a subsidiary		–	77,685
Trade and retention receivables	10	227,630	226,336
Prepayments, deposits and other receivables		152,859	114,953
Amounts due from customers for contract work		317,832	297,086
Amounts due from non-controlling interests		–	1,850
Amounts due from associates		6,474	12,612
Amount due from a related company		526	1,224
Held-for-trading financial assets		64	59
Available-for-sale investments		–	102,625
Cash held at non-bank financial institutions		3,812	8,619
Bank balances and cash		70,119	136,199
		<u>928,787</u>	<u>1,137,731</u>
Current Liabilities			
Trade payables	11	208,950	182,368
Accrued liabilities, deposits received and other payables		171,098	173,969
Amounts due to customers for contract work		12,207	11,398
Amount due to a joint venture		1,393	–
Amount due to a non-controlling interest		24,586	–
Borrowings		–	477,326
Tax payable		148,209	139,030
		<u>566,443</u>	<u>984,091</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net Current Assets	<u>362,344</u>	<u>153,640</u>
Total Assets less Current Liabilities	<u>1,964,626</u>	<u>1,597,707</u>
Non-Current Liabilities		
Receipt in advance	2,823	5,615
Deferred income	9,804	8,091
Borrowings	446,662	–
Deferred tax liabilities	<u>64,035</u>	<u>63,550</u>
	<u>523,324</u>	<u>77,256</u>
Net Assets	<u><u>1,441,302</u></u>	<u><u>1,520,451</u></u>
Capital and Reserves		
Share capital	223,990	225,184
Reserves	<u>1,171,857</u>	<u>1,250,844</u>
Equity attributable to owners of the Company	1,395,847	1,476,028
Non-controlling interests	<u>45,455</u>	<u>44,423</u>
Total Equity	<u><u>1,441,302</u></u>	<u><u>1,520,451</u></u>

Note:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which includes HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

2. ADOPTION OF NEW AND REVISED HKFRSS — EFFECTIVE 1 JANUARY 2016

In the year ended 31 December 2016, the Group has applied the following new and revised HKFRSs.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new and revised HKFRSs in the year ended 31 December 2016 has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. NEW AND REVISED HKFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle ²
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;
- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

4. SEGMENT INFORMATION

The Group's four (2015: three) reporting segments are as follows:

- (a) Shallow ground source energy segment;
- (b) Air conditioning heat pump segment;
- (c) Securities investment and trading segment; and
- (d) Properties investment and development segment

For the year ended 31 December 2016

	Shallow ground source energy <i>HK\$'000</i>	Air conditioning heat pump <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External sales	<u>428,413</u>	<u>172,518</u>	<u>–</u>	<u>18,122</u>	<u>619,053</u>
Segment results	<u>35,175</u>	<u>1,621</u>	<u>4,481</u>	<u>64,649</u>	105,926
Share of results of associates					483
Share of result of a joint venture					128
Unallocated other income					2,053
Unallocated expenses					(82,008)
Unallocated finance costs					<u>(36,106)</u>
Loss before tax					<u>(9,524)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

For the year ended 31 December 2015

	Shallow ground source energy <i>HK\$'000</i>	Air conditioning heat pump <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External sales	<u>298,820</u>	<u>–</u>	<u>–</u>	<u>20,534</u>	<u>319,354</u>
Segment results	<u>42,702</u>	<u>–</u>	<u>14,551</u>	<u>32,689</u>	89,942
Share of results of associates					(382)
Share of result of a joint venture					798
Unallocated other income					4,966
Unallocated expenses					(79,339)
Unallocated finance costs					<u>(38,944)</u>
Loss before tax					<u>(22,959)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents profit earned by or loss from each segment without allocation of share of results of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and interest on borrowings. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment. Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year ended 31 December 2016 and 2015.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Segment assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Shallow ground source energy	1,387,444	1,377,736
Air conditioning heat pump	60,441	–
Securities investment and trading	99,906	288,908
Properties investment and development	<u>832,683</u>	<u>690,657</u>
Total segment assets	2,380,474	2,357,301
Unallocated corporate assets	<u>150,595</u>	<u>224,497</u>
Consolidated total assets	<u>2,531,069</u>	<u>2,581,798</u>

Segment liabilities

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Shallow ground source energy	331,401	331,427
Air conditioning heat pump	42,352	–
Securities investment and trading	4,353	3,429
Properties investment and development	<u>26,776</u>	<u>46,585</u>
Total segment liabilities	404,882	381,441
Unallocated corporate liabilities	<u>684,885</u>	<u>679,906</u>
Consolidated total liabilities	<u><u>1,089,767</u></u>	<u><u>1,061,347</u></u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, interests in associates and a joint venture, deferred tax assets, amounts due from associates and a related company, cash held at non-bank financial institutions, bank balances and cash; and
- all liabilities are allocated to operating segments other than amounts due to a non-controlling interest and a joint venture, borrowings, deferred tax liabilities and tax payable.

Geographical information

The Group's operations are mainly located in the PRC. All of the Group's revenue from external customers based on the location at which the services were provided or the goods were delivered and non-current assets are located in the PRC.

Information about major customers

Turnover from customers contributing over 10% of the total sales of the Group in both years are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	<u><u>135,527[#]</u></u>	<u><u>N/A[*]</u></u>

[#] Sales are derived from the trading of air conditioning heat pump products.

^{*} The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold to customers, net of allowance for returns and trade discounts where applicable, and construction, installation and maintenance services rendered, as well as gross rental income received from investment properties. An analysis of the Group's revenue for the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sales and installation of shallow ground source energy utilisation system	417,724	290,660
Sales of air conditioning heat pump products	172,518	–
Maintenance services for shallow ground source energy utilisation system	10,689	8,160
Rental income (<i>Note (i)</i>)	<u>18,122</u>	<u>20,534</u>
	<u><u>619,053</u></u>	<u><u>319,354</u></u>

(i) An analysis of the Group's net rental income is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gross rental income	18,122	20,534
Less: direct operating expenses from investment properties that generated rental income during the year	<u>–</u>	<u>(1,080)</u>
Net rental income	<u><u>18,122</u></u>	<u><u>19,454</u></u>

6. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
PRC EIT	18,984	30,604
Deferred tax	<u>3,121</u>	<u>(5,457)</u>
	<u><u>22,105</u></u>	<u><u>25,147</u></u>

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI during both years.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except as stated below, the tax rate of all the other PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprises in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2016 (2015: 15%).

7. LOSS FOR THE YEAR

	2016 HK\$'000	2015 HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
– Wages and salaries	66,520	57,355
– Retirement benefits scheme contributions	10,588	10,808
– Share-based payments	5,309	7,747
	<u>82,417</u>	<u>75,910</u>
Cost of inventories sold	465,983	188,440
Depreciation of property, plant and equipment	12,653	15,215
Auditor's remuneration	2,382	2,410
Minimum lease payments under operating leases in respect of land and buildings	8,310	8,949
Fair value change on held-for-trading financial assets	(5)	946
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	42,471	11,181
Research costs (included in administrative expenses)*	<u>11,199</u>	<u>7,549</u>

* Research costs included staff costs and depreciation of property, plant and equipment used in research activities.

8. DIVIDEND

During the years ended 31 December 2016 and 2015, no final dividend in respect of the years ended 31 December 2015 and 2014, respectively, were declared and paid to the shareholders of the Company.

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2016 HK\$'000	2015 HK\$'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>(30,816)</u>	<u>(47,506)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	2016 <i>'000</i>	2015 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares in issue	2,876,500	2,898,614

Note: The computation of diluted loss per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price for shares for the years ended 31 December 2016 and 2015.

10. TRADE AND RETENTION RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	204,937	215,331
Less: allowance for doubtful debts	(59,646)	(58,651)
	145,291	156,680
Retention receivables	82,339	69,656
	227,630	226,336

The following aging analysis of trade receivables is presented based on the invoice date, at the end of the reporting period.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 90 days	67,210	48,485
91 to 180 days	4,301	52,347
181 to 365 days	18,233	11,140
Over 365 days	55,547	44,708
	145,291	156,680

11. TRADE PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 90 days	82,432	38,658
91 to 180 days	13,863	17,517
181 to 365 days	15,745	36,412
Over 365 days	96,910	89,781
	208,950	182,368

The average credit period on purchases of goods is from 90 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

3. UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2017

The following is the audited consolidated financial information of the Group for the three months ended 31 March 2017 as extracted from the first quarterly report of the Group published on 15 May 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Three months ended 31 March	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	101,607	137,668
Cost of sales	(56,021)	(105,751)
Gross profit	45,586	31,917
Other income	3,340	19,455
Selling and distribution expenses	(6,309)	(8,067)
Administrative expenses	(25,839)	(27,864)
Profit from operations	16,778	15,441
Share of results of associates	(314)	(669)
Share of result of a joint venture	(426)	(584)
Share-based payment expenses	(2,527)	–
Financial costs	(7,931)	(9,335)
Profit before tax	5,580	4,853
Income tax expense	(2,730)	(2,417)
Profit for the period	2,850	2,436
Other comprehensive income (expense) for the period:		
Fair value gains on available-for-sale investments	1	1,120
Share of other comprehensive expense of associates	(1)	(7)
Share of other comprehensive expense of a joint venture	(1)	(6)
Exchange differences arising on translation of foreign operation	8,455	8,323
Total other comprehensive income for the period	8,454	9,430
Total comprehensive income for the period	11,304	11,866
Profit (loss) attributable to:		
Owners of the Company	4,099	2,836
Non-controlling interests	(1,249)	(400)
	2,850	2,436
Total comprehensive income (expense) attributable to:		
Owners of the Company	12,276	12,154
Non-controlling interests	(972)	(288)
	11,304	11,866
Earnings per share		
Basic (HK cents)	0.143	0.098
Diluted (HK cents)	0.143	0.098

4. INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had an unsecured loan of RMB400,000,000 (equivalent to approximately HK\$451,457,000) from Zhong Jie Neng Hua Yu Fund Management Company Limited (中節能華禹基金管理有限公司), a related party connected to the Group, through Huishang Bank Hefei Sui Qi Road branch (徽商銀行合肥濉溪路支行).

As at the close of business on 31 March 2017, the Group had no contingent liability arising in the ordinary course of business.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, at the close of business on 31 March 2017, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

5. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the 14th meeting of the Central Leading Group on Financial and Economic Affairs (中央財經領導小組第十四次會議) in December 2016, President Xi Jinping emphasised to address 6 major concerns in the country's long-term development, top of which is to achieve clean heating in winters of North China. Clean heating in North China not only means efficient heating in winters, but also contributes to substantial reduction of smoggy days in North China. This composes an important chapter of the revolution in energy generation and consumption, and the upgrading of rural livelihood.

Years of successful practice in this area have endowed the Group with more profound understanding of President Xi's words, as it navigates our growth. For the Group, local adaptability is the source of the technological innovation, and pollution reduction in its application areas is the guarantee for emission reduction. 1. Highly efficient use of electricity replaces coal consumption in heating, to formulate a heating chain that depends on renewable energy consumption and supported by electricity networks. This will help to formulate an industrial chain of clean heating energy that suits north China best. 2. In the new era, i) the most efficient mode of energy consumption for households is to use gas for cooking and ground source energy for heating. ii) the third energy revolution is undergoing in the heating industry, i.e. taking renewable shallow-ground source energy as the substitute heating energy, supplemented by air-sourced energy, to achieve graded utilization of energies. iii) based on renewable energy heating network and supported by efficient power grid, a household-based heating infrastructure in rural areas is built up to greatly improve living qualities there.

Chinese government has listed shallow-ground source energy heating as a measure to cure smog and promulgated its geoenergy development plan in the thirteenth Five-Year Plan. It is expected that by the year of 2020, the area heated by shallow ground energy will increase by another 700 million m², with total market value exceeding RMB200 billion. Heating is a rigid demand. The iron-fisted measures taken by the Government in curing smog has ushered in a golden period of high-speed leap forward growth for the Group.

6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that the Group has sufficient working capital for its present requirements and for at least 12 months from the date of this circular in the absence of any unforeseeable circumstances after taking into account its present internal resources and available banking facilities together with the estimated net proceeds of the Rights Issue.

7. MATERIAL CHANGE

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

For illustrative purpose only, set out below is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group after completion of the Rights Issue. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company (the "Unaudited Pro Forma Financial Information") which has been prepared by the directors of the Company in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), for the purpose of illustrating the effect of the Rights Issue on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had been completed on 31 December 2016.

The Unaudited Pro Forma Financial Information is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Rights Issue as at 31 December 2016 or at any future date.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 as extracted and derived from the consolidated financial statements for the year ended 31 December 2016 included in the published annual results announcement of the Company and is adjusted for the effect of the Rights Issue.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after completion of the Rights Issue <i>HK\$'000</i> <i>(Note 3)</i>	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 per Share <i>HK cents</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after completion of the Rights Issue per Share <i>HK cents</i> <i>(Note 4)</i>
Based on 1,150,550,046 Rights Shares at Subscription Price of HK\$0.10 per Rights Share	<u>930,087</u>	<u>112,035</u>	<u>1,042,122</u>	<u>0.323</u>	<u>0.259</u>
Based on 1,323,758,046 Rights Shares at Subscription Price of HK\$0.10 per Rights Share	<u>930,087</u>	<u>129,300</u>	<u>1,059,387</u>	<u>0.323</u>	<u>0.252</u>

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

- 1) The amount of audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 is based on the audited consolidated net assets of the Group attributable to owners of the Company of approximately HK\$1,395,847,000 adjusted for the goodwill of approximately HK\$465,760,000, as extracted from the published annual results announcement of the Company, for the year ended 31 December 2016.
- 2) The estimated net proceeds from the Rights Issue are based on the issuance of (i) minimum number of 1,150,550,046 right shares ("Rights Shares") and (ii) maximum number of 1,323,758,046 Rights Shares to be issued as defined in this Circular at the subscription price of HK\$0.10 per Rights Share, after deducting the estimated underwriting commission and other related expenses of approximately (i) HK\$3,020,000 and (ii) HK\$3,075,800 to be incurred by the Company for the issuance of minimum and maximum number of Rights Shares, respectively.

The maximum number of Rights Shares has been arrived at assuming the issue of new Shares upon exercise in full of the subscription rights attached to all outstanding share options granted by the Company.

- 3) The calculation of the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 per Share is determined based on the audited consolidated net tangible assets of the Group attributable to owners of the Company of approximately HK\$1,395,847,000 adjusted for the goodwill of approximately HK\$465,760,000, divided by the number of shares in issue of 2,876,375,117 as at 31 December 2016.
- 4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after the completion of the Rights Issue per Share has been arrived at on the basis that (i) 4,026,925,163 Shares, which represent 2,876,375,117 Shares in issue as at 31 December 2016 and 1,150,550,046 Rights Shares to be allotted and issued pursuant to the Rights Issues, and (ii) 4,200,133,163 Shares, which represent 2,876,375,117 Shares in issue as at 31 December 2016 and 1,323,758,046 Rights Shares to be allotted and issued pursuant to the Rights Issues, were in issue assuming that the Rights Issue had been completed on 31 December 2016.
- 5) No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report from SHINEWING (HK) CPA Limited, the independent reporting accountants, in respect of the unaudited pro forma financial information of the Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

B. INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

19 May 2017

The Board of Directors
China Ground Source Energy Industry Group Limited
Units 3709-10, 37/F., The Centre
99 Queen's Road Central
Central, Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Ground Source Energy Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016, and related notes as set out on pages II-1 to II-2 of the circular (the "Circular") in connection with the proposed rights issue of not less than 1,150,550,046 and not more than 1,323,758,046 rights shares at the subscription price of HK\$0.10 per rights share on the basis of two rights share for every five shares held on the record date by qualifying shareholders (the "Rights Issue") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 and II-2.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Rights Issue on the Group's consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 as if the Rights Issue had taken place at 31 December 2016. As part of this process, information about the Group's consolidated net tangible assets of the Group attributable to owners of the Company has been extracted by the directors of the Company from the Group's audited consolidated financial statements for the year ended 31 December 2016, on which an annual results announcement has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(1) of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the Rights Issue on unadjusted financial information of the Group as if the Rights Issue had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591
Hong Kong

APPENDIX III DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

The following are the particulars of the directors proposed to be re-elected at the EGM:

Mr. An Yi, (“Mr. An”) aged 48, the joint chairman of the Board and the executive Director. Mr. An graduated from Central University of Finance and Economics with a degree of infrastructure finance and credit in 1991. He is a doctoral candidate and senior researcher economist. He holds an Executive Master of Business Administration from University of Texas at Arlington. Since July 1991, he worked as an officer in Ministry of Aviation and Aerospace Industry, the deputy director of the board of China Aviation Industry Corporation (China National Space Administration) and the director of China Aerospace Science & Industry Corporation. Since 2004, he served, in chronological order, Aerospace Science & Technology Finance Company Limited as the standing deputy general manager (director) and the general manager (director), as a full-time member of China Aerospace Science & Industry Corporation Supervision Committee and vice chairman of Aerospace Securities Company Limited. He joined China Energy Conservation Investments Company Limited in July 2008 as a general manager assistant and the head of financial department. He worked as a general manager assistant and the head of financial management department in China Energy Conservation and Environmental Protection Group since April 2010. Currently, he is the deputy general manager of China Energy Conservation and Environmental Protection Group, the parent company of substantial shareholder of the Company, and the chairman of CECEP Capital Holdings Limited, the chairman of CECEP Finance Company Limited and the chairman of Sino-British Low Carbon Venture Capital Limited.

Save as disclosed above, as at the Latest Practicable Date, Mr. An does not hold any positions with the Company or its subsidiaries and does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company. Mr. An has no interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. An did not hold any directorships in any listed companies in the past three years.

Mr. An entered into a service agreement with the Company in respect of his appointment as executive Director for a term of three years commencing from 30 March 2017 which can be terminated by either party by giving not less than three month’s written notice to the other. Pursuant to the Company’s Articles of Association, Mr. An is subject to retirement by rotation and re-election at general meetings of the Company. Mr. An will receive a director’s emolument of HK\$2,016,000 per annum which was fixed with reference to market conditions and his duties and responsibilities with the Group.

Save as disclosed above, there are no other information for Mr. An which are required to be disclosed pursuant to Rule 17.50 (2) (h) to (v) of the GEM Listing Rules and no other matters that need to be brought to the attention of the shareholders of the Company.

Mr. Wu Qiang, aged 57, an independent non-executive Director. Mr. Wu graduated from China University of Geosciences, Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology, Beijing and a member of China Academy of Engineering. Mr. Wu was honoured with the “Li Siguang Geological Science Award” and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first “Outstanding Postdoctoral Award of China”, “National Outstanding Teacher” and the State-selected candidate of the first project of “Hundreds, Thousands, and Ten Thousands of Talents for the New Century” of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is a member of the

APPENDIX III DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

Executive Council of International Mine Water Association (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and the Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology, a member of Commission of Technology under State Administration of Work Safety and the head of “Expert Panel On Hydrogeology” under the State Administration of Coal Mine Safety.

Mr. Wu has published many books and over 300 academic articles. His works were honored with two Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 40 invention patents were granted by Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. Mr. Wu has trained dozens of post-doctoral fellows and doctoral candidates. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the “Team of Safety in Mines” of China Association for Science and Technology.

Save as disclosed above, as at the Latest Practicable Date, Mr. Wu does not hold any positions with the Company or its subsidiaries and does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company. Mr. Wu has no interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Wu did not hold any directorships in any listed companies in the past three years.

Mr. Wu entered into an appointment letter with the Company in respect of his appointment as an independent non-executive director for a term of two years commencing from 29 December 2016 which can be terminated by either party by giving not less than three months’ written notice to the other. Mr. Wu will receive an annual director’s fee of HK\$150,000, which is fixed with reference to the market conditions and his duties and responsibilities as well as the director’s fee payable to the existing independent non-executive Director of the Company. Pursuant to the Company’s Articles of Association, Mr. Wu is subject to retirement by rotation and re-election at general meetings of the Company.

The Company is of the view that Mr. Wu meets the independence requirements of the GEM Listing Rules.

Save as disclosed above, there are no other information for Mr. Wu which are required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules and no other matters that need to be brought to the attention of the shareholders of the Company.

Mr. Guo Qingui, aged 44, an independent non-executive Director. Mr. Guo graduated from the School of Law of Zhengzhou University. He obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China, he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing) and King & Wood Mallesons. He currently serves as a managing partner and a lawyer of Zhongxin Law Firm in Beijing.

APPENDIX III DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

Save as disclosed above, as at the Latest Practicable Date, Mr. Guo does not hold any positions with the Company or its subsidiaries and does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company. Mr. Guo has no interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Guo did not hold any directorships in any listed companies in the past three years.

Mr. Guo entered into an appointment letter with the Company in respect of his appointment as an independent non-executive director for a term of two years commencing from 29 December 2016 which can be terminated by either party by giving not less than three months' written notice to the other. Mr. Guo will receive an annual director's fee of HK\$150,000, which is fixed with reference to the market conditions and his duties and responsibilities as well as the director's fee payable to the existing independent non-executive Director of the Company. Pursuant to the Company's Articles of Association, Mr. Guo is subject to retirement by rotation and re-election at general meetings of the Company.

The Company is of the view that Mr. Guo meets the independence requirements of the GEM Listing Rules.

Save as disclosed above, there are no other information for Mr. Guo which are required to be disclosed pursuant to Rule 17.50 (2) (h) to (v) of the GEM Listing Rules and no other matters that need to be brought to the attention of the shareholders of the Company.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group.

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 issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and beliefs, 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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to CECEP (Hong Kong) and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information contained herein (other than that relating to the Group) has been supplied by the directors of CECEP (Hong Kong), namely, Mr. Zhao Youmin, Mr. Du Le, Ms. Wang Lijuan and Ms. Xu Genghong, who jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

CECEP Group and the directors of CECEP Group, namely, Liu Dashan, Wang Tongzhou, Wu Taishi, Zhang Xiaolu, Ju Zhanghua, Liu Maoxun, Jia Changbin, Jiang Kaixi and Zhu Min jointly and severally accept full responsibility for the accuracy of the information in relation to the CECEP (Hong Kong) in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of CECEP (Hong Kong) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion will be as follows:

Authorised: US\$

<u>16,000,000,000</u>	Shares as at the Latest Practicable Date	<u>160,000,000</u>
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Issued and fully paid:

2,876,375,117	Shares as at the Latest Practicable Date	8,763,751.17
Not less than 1,150,550,046 and not more than 1,323,758,046	Rights Shares to be allotted and issued	Not less than 11,505,500.46 and not more than 13,237,580.46
Not less than 4,026,925,163 and not more than 4,633,153,163	Shares upon completion of the Rights Issue	Not less than 40,269,251.6 and not more than 46,331,531.63

All of the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital.

During the 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date, the Company has not repurchased any Shares.

Subsequent to 31 December 2016, the end of the last financial year of the Company, and up to the Latest Practicable Date, the Company has not issued any new Shares.

Save as the outstanding Share Options pursuant to the Share Option Scheme, to subscribe for an aggregate of 433,020,000 new Shares, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period before the Latest Practicable Date; (ii) 12 April 2017, being the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share (HK\$)
31 October 2016	0.235
30 November 2016	0.228
30 December 2016	0.225
27 January 2017	0.212
28 February 2017	0.234
31 March 2017	0.210
12 April 2017 (the Last Trading Day)	0.240
28 April 2017	0.179
Latest Practicable Date	0.174

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.280 on 12 October 2016 and HK\$0.172 on 15 May 2017 respectively.

4. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

Long positions and short positions in Shares and Share Options

Name of Director/ chief executive of the Company	Capacity	Number of issued Shares in the Company held and the capacity		Interests under Share Option Scheme	Aggregate interests ⁽¹⁾	Approximate percentage of the aggregate interests
		Interest in Shares ⁽¹⁾	Approximate percentage of interest in Shares			
Mr. Xu	Beneficial owner	1,017,256,859 (L)	35.37%	33,600,000 (L)	1,051,839,659 (L) ⁽²⁾	36.57%
	Beneficial owner	508,300,000 (S) ⁽³⁾	17.67%	–	508,300,000 (S)	17.67%
	Interest of spouse	982,800 (L)	0.03%	–		
Ms. Chan	Beneficial owner	110,411,682 (L)	3.84%	39,000,000 (L)	163,515,282 (L) ⁽⁴⁾	5.68%
	Interest of spouse	14,103,600 (L)	0.49%	–		
Mr. Wang Manquan ⁽⁵⁾	Beneficial owner	512,000 (L)	0.02%	27,000,000 (L)	27,512,000 (L)	0.96%
Mr. Jia Wenzeng ⁽⁶⁾	Beneficial owner	–	–	4,300,000 (L)	4,300,000 (L)	0.15%
Mr. Wu Desheng ⁽⁷⁾	Beneficial owner	–	–	2,800,000 (L)	2,800,000 (L)	0.10%

Notes:

- (1) The letters “L” and “S” denote the Directors’ long position and short position in the Shares or the relevant associated corporation respectively.
- (2) These consist of (i) 508,319,000 Shares beneficially owned by Mr. Xu, (ii) 216,767,600 Rights Shares undertaken to be taken by Mr. Xu, (iii) 292,170,259 Rights Shares underwritten by Mr. Xu under the Underwriting Agreement, (iv) 33,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to the paragraph headed “Long positions under equity derivatives – the Share Option Scheme” below and (v) spousal interest of 982,800 Shares. Ms. Luk Hoi Man, the spouse of Mr. Xu, is interested in 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk Hoi Man is interested.
- (3) The short position in the Shares represented the pledge of Shares by Mr. Xu.
- (4) These consist of (i) 41,636,000 Shares beneficially owned by Ms. Chan, (ii) 32,254,400 Rights Shares undertaken to be taken by Ms. Chan, (iii) 36,521,282 Right Shares underwritten by Ms. Chan under the Underwriting Agreement, (iv) 39,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to the paragraph headed “Long positions under equity derivatives – the Share Option Scheme” below and (v) spousal interest of 14,103,600 Shares. Mr. Chow Ming Joe Raymond, spouse of Ms. Chan, is interested in 14,103,600 Shares. Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow Ming Joe Raymond is interested.
- (5) Mr. Wang Manquan is interested in 512,000 Shares and 27,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to the paragraph headed “Long positions under equity derivatives – the Share Option Scheme” below.
- (6) Mr. Jia Wenzeng is interested in 4,300,000 Shares issuable pursuant to exercise of share options of the Company, details of which can be referred to the paragraph headed “Long positions under equity derivatives – the Share Option Scheme” below.

- (7) Mr. Wu Desheng is interested in 2,800,000 Shares issuable pursuant to exercise of share options of the Company, details of which can be referred to the paragraph headed “Long position under equity derivatives – the Share Option Scheme” below.

Long positions under equity derivatives

The Share Option Scheme

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted the Share Option Scheme for a period of ten years from the date on which the Share Option Scheme became unconditional. On 7 August 2010, the Share Option Scheme became unconditional and effective. Pursuant to the Share Option Scheme, the Board was authorised, at its absolute discretion, to grant options to eligible participants, including Directors, as defined in accordance with the terms of the Share Option Scheme, to subscribe for Shares under the terms of the Share Option Scheme. As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested in the following options under the Share Option Scheme:

Name of Director/ chief executive of the Company	Date of grant	Exercise period	Exercise price per Share HK\$	Number of share options outstanding as at the Latest Practicable Date
Mr. Xu	9 December 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Ms. Chan	9 December 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667
		9 September 2012 to 8 September 2020	0.426	1,666,667
		9 September 2013 to 8 September 2020	0.426	1,666,666
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000

Name of Director/ chief executive of the Company	Date of grant	Exercise period	Exercise price per Share HK\$	Number of share options outstanding as at the Latest Practicable Date
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

(a) Share options

As at the Latest Practicable Date, save as disclosed in the paragraph “4. DIRECTORS’ INTERESTS – Long Position under equity derivatives – The Share Option Scheme”, the Company has not granted to any other Directors any share option under the Share Option Scheme.

(b) Service contracts

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the directors or proposed directors of the Group and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Mr. An Yi has been appointed as the executive Director with effect from 30 March 2017 and entered into a service agreement with the Company in respect of his appointment for a term of three years commencing from 30 March 2017, which can be terminated by either party by giving not less than three month’s written notice to the other. Pursuant to the Company’s Articles of Association, Mr. An is subject to retirement by rotation and re-election at general meetings of the Company. Pursuant to the service agreement, Mr. An will receive a director’s emolument of HK\$2,016,000 per annum.

Mr. Wang Manquan has been appointed as the executive Director with effect from 29 December 2016 and entered into a service agreement with the Company in respect of his appointment for a term of three years commencing from 29 December 2016, which can be terminated by either party by giving not less than three month’s written notice to the other. Pursuant to the Company’s Articles of Association, Mr. Wang is subject to retirement by rotation and re-election at general

meetings of the Company. Pursuant to the service agreement, Mr. Wang will receive a director's emolument of HK\$ 954,000 per annum. In addition, Mr. Wang will be entitled to receive an annual bonus based on the performance of the Group.

Mr. Dai Qi has been re-designated from his position as non-executive Director to executive Director with effect from 29 December 2016 and entered into a service agreement with the Company in respect of his appointment for a term of three years commencing from 29 December 2016, which can be terminated by either party by giving not less than three month's written notice to the other. Pursuant to the Company's Articles of Association, Mr. Dai is subject to retirement by rotation and re-election at general meetings of the Company. Pursuant to the service agreement, Mr. Dai will receive a director's emolument of HK\$ 780,000 per annum.

Mr. Wu Qiang has been appointed as independent non-executive Director with effect from 29 December 2016 and entered into an appointment letter with the Company in respect of his appointment for a term of two years commencing from 29 December 2016, which can be terminated by either party by giving not less than three month's written notice to the other. Pursuant to the Company's Articles of Association, Mr. Wu is subject to retirement by rotation and re-election at general meetings of the Company. Pursuant to the appointment letter, Mr. Wu will receive a director's fee of HK\$ 150,000 per annum.

Mr. Guo Qingui has been appointed as independent non-executive Director with effect from 29 December 2016 and entered into an appointment letter with the Company in respect of his appointment for a term of two years commencing from 29 December 2016, which can be terminated by either party by giving not less than three month's written notice to the other. Pursuant to the Company's Articles of Association, Mr. Guo is subject to retirement by rotation and re-election at general meetings of the Company. Pursuant to the appointment letter, Mr. Guo will receive a director's fee of HK\$ 150,000 per annum.

As at the Latest Practicable Date, saved as disclosed above, there were no service contracts with the Group or associated companies of the Company in force for Directors (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

(c) Interest in assets of the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which has been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or was proposed to be acquired or disposed of by or leased to any member of the Group.

(d) Interest in contracts and arrangements

Save as disclosed in this circular, none of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

(e) Interest in competing business

Save as disclosed in this circular, to the best of the knowledge of the Directors, none of the Directors or their respective associates had any interest in a business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as the Directors are aware, the following persons had a long position or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions and short positions in Shares and equity derivatives

Name	Capacity	Number of issued Shares in the Company held and the capacity		Interests under equity derivatives	Aggregate interests ⁽¹⁾	Approximate percentage of the aggregate interests
		Interest in Shares ⁽¹⁾	Approximate percentage of interest in Shares			
CECEP (Hong Kong)	Beneficial owner	1,482,170,258 (L)	51.53%	–	1,482,170,258 (L) ⁽²⁾	51.53%
CECEP Group ⁽³⁾	Interest of controlled corporation	1,482,170,258 (L)	51.53%	–	1,482,170,258 (L)	51.53%
Ms. Luk Hoi Man	Beneficial owner	982,800 (L)	0.03%	–		
	Interest of spouse	1,017,256,859 (L)	35.37%	33,600,000 (L)	1,051,839,659 (L)	36.57%
		508,300,000 (S) ⁽⁵⁾	17.67%	–	508,300,000 (S)	17.67%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares or the relevant associated corporation. The letter “S” denotes the person’s short position in the Shares or the relevant associated corporation.
- (2) These consist of (i) 850,000,000 Shares beneficially owned by CECEP (Hong Kong); (ii) 340,000,000 Rights Shares undertaken to be taken by CECEP (Hong Kong); and (iii) 292,170,258 Right Shares underwritten by CECEP (Hong Kong) under the Underwriting Agreement.

- (3) CECEP (Hong Kong) is a wholly-owned subsidiary of CECEP Group. Therefore, under the SFO, CECEP Group is deemed to be interested in 1,482,170,258 Shares.
- (4) These consist of (i) 702,000 Shares beneficially owned by Ms. Luk Hoi Man; (ii) 280,800 Rights Shares undertaken to be taken by her, and (iii) 1,017,256,859 spousal interest. Mr. Xu, spouse of Ms. Luk Hoi Man, is interested in 1,017,256,859 Shares and 33,600,000 Shares issuable pursuant to exercise of share options of the Company. Under the SFO, Ms. Luk Hoi Man is deemed to be interested in 1,017,256,859 Shares in which Mr. Xu is interested.
- (5) The short position of the Share represented the pledge of Shares by Mr. Xu, the spouse of Ms. Luk Hoi Man.

Save as disclosed above, none of the Directors is aware of any person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had a long or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

6. ADDITIONAL DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, save as disclosed in the paragraph headed “Shareholding Structure of the Company” under the section headed “Letter from the Board” in this circular, no voting rights or rights over the Shares, options, derivatives, warrants, other securities convertible into Shares, or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) owned or controlled or directed by the CECEP (Hong Kong), directors of CECEP (Hong Kong) or any parties acting in concert with it;
- (b) As at the Latest Practicable Date, there is no irrevocable commitment received by CECEP (Hong Kong) or any parties acting in concert with it to vote for or against the resolution(s) to be proposed at the EGM in relation to, among others, the Whitewash Waiver.
- (c) As at the Latest Practicable Date, there are no outstanding derivatives in respect of securities in the Company entered into by CECEP (Hong Kong).
- (d) As at the Latest Practicable Date, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between CECEP (Hong Kong) or any parties acting in concert with it and other persons in relation to the Shares.
- (e) As at the Latest Practicable Date, there is no other agreement or arrangement to which CECEP (Hong Kong) or any parties acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Whitewash Waiver or the Rights Issue.
- (f) none of the Directors, CECEP (Hong Kong), its directors or any parties acting in concert with it has any dealings in any securities of the Company during the Relevant Period;
- (g) As at the Latest Practicable Date, there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which CECEP (Hong Kong) or any parties acting in concert with it has borrowed or lent.
- (h) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the CECEP (Hong Kong) or any parties acting in concert with it and other persons in relation to the transfer, charge or pledge of the Shares in relation to the Rights Issue.
- (i) Save as disclosed in the sections headed “Directors’ Interests” in this appendix, CECEP (Hong Kong) or any parties acting in concert with it and the Directors and any person acting in concert with the Directors did not have any shares, convertible securities, warrants, options or other derivatives of the Company as at the Latest Practicable Date and none of the CECEP (Hong Kong) or any parties acting in concert with it, the Directors and any person acting in concert with the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.
- (j) As at the Latest Practicable Date, no person has irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM.

- (k) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; and (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company.
- (l) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code.
- (m) As at the Latest Practicable Date, there have been no shares, convertible securities, warrants, options or derivatives in the Company which the Company, any Director or any person acting in concert with any Director has borrowed or lent.
- (n) No benefit will be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Whitewash Waiver.
- (o) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver or otherwise connected with the Whitewash Waiver.
- (p) As at the Latest Practicable Date, there was no material contract entered into by CECEP (Hong Kong) or any parties acting in concert with it in which any Director had a material personal interest.
- (q) As at the Latest Practicable Date, save as disclosed in this circular, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between any member of the CECEP (Hong Kong) or any parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver or otherwise connected with the Rights Issue, Underwriting Agreement and/or the Whitewash Waiver.
- (r) As at the Latest Practicable Date, there were no shares, convertible securities, warrants, options or derivatives in the Company which are managed on a discretionary basis by fund managers connected with the Company.
- (s) As at the Latest Practicable Date, none of the Group or any of the Directors have any beneficial interest in the relevant securities of CECEP (Hong Kong) or its associates.
- (t) no relevant securities in the Company was owned or controlled by any person who had, prior to the posting of this circular, irrevocably committed themselves to vote for or against the Whitewash Waiver or to accept or reject the Rights Issue except the undertaking of CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse mentioned in the paragraph headed “Irrevocable Undertakings” in the letter from the Board set out in this circular.

- (u) Mr. Wang Manquan had informed the Company that he intended to vote for the Whitewash Waiver.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance or might become a party to any material litigation and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group which are or may be material, have been entered into by the Group within two years preceding the date of the Announcement and up to the Latest Practicable Date:

- (a) the Underwriting Agreement;
- (b) the Irrevocable Undertakings;
- (c) On 30 December 2016, Ever Source Science and Technology Development Group Co., Ltd. (恒有源科技發展集團有限公司), an indirectly wholly owned subsidiary of the Company (“HYY”) and Beijing Sibolian General Mechanical New Technology Company (北京市四博連通用機械新技術公司) (“Sibolian”) entered into a property usage right transfer agreement, pursuant to which HYY agreed to sell, and Sibolian agreed to purchase, the property usage right of the buildings with gross floor area of 2,253.98 square meters erected at the Environmental System Industrial Base for Central Liquid Heating/Cooling Energy located at No. 80 Xing Shi Kou Road, Hai Dian District, Beijing City at the consideration of RMB45,079,600, as disclosed in the announcement of the Company dated 30 December 2016;
- (d) On 30 December 2016, Hangzhou Ever Source Energy and Technology Ltd. (杭州恒有源能源科技有限公司) (an indirect wholly owned subsidiary of the Company, “HYY Hangzhou”), Hong Kong Goodway International Holdings Limited (“HK Goodway”), Mr. Chen Zaixian and HYY Investment Management Ltd. enter into a supplemental agreement to vary the terms of a sale and purchase agreement (“S&P Agreement”) dated 31 December 2014 entered into between HYY Hangzhou, HK Goodway and Mr. Chen Zaixian (“Supplemental Agreement”). Pursuant to the Supplemental Agreement, the consideration for the acquisition under the S&P Agreement is reduced from RMB93,000,000 to RMB65,100,000 and the transferee of the equity interests transfer of Goodway (Hangzhou) Biotechnology Ltd. (嘉德威(杭州)生物科技有限公司) shall be changed to HYY Investment Management Ltd., as disclosed in the announcement of the Company dated 30 December 2016; and
- (e) 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, as disclosed in the announcement of the Company dated 21 January 2016.

9. EXPERTS AND CONSENTS

- (a) The following are the experts (the “Experts”), including their respective qualifications, who have given their opinions or letters which are included in this circular:

Name	Qualification
Asian Capital (Corporate Finance) Limited	a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
SHINEWING (HK) CPA Limited	certified public accountants

- (b) As at the Latest Practicable Date, none of the Experts has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, the Experts have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective opinions or letters and/or the references to their names in the form and context in which they are respectively included.
- (d) As at the Latest Practicable Date, none of the Experts had any direct or indirect interest in any asset which had been acquired or disposed of by, or leased to any member of the Group, or was proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

10. CORPORATE INFORMATION

Registered office	P.O. Box 31119 Grand Pavilion Hibiscus Way 802 West Bay Road Grand Cayman KY1-1205 Cayman Islands
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Head office and principal place of business in Hong Kong	Unit 3709-10, 37/F, the Center 99 Queen's Road Central Central Hong Kong
Authorised representatives	Mr. Xu Shengheng Ms. Wong Lai Yuk
Company secretary	Ms. Wong Lai Yuk Associate member of The Hong Kong Institute of Chartered Secretaries
Principal share registrar and transfer office in the Cayman Islands	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong
Auditors	SHINEWING (HK) CPA Limited <i>Certified Public Accountants</i> 43/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

11. PARTIES INVOLVED IN THE RIGHTS ISSUE

Underwriters

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

Ms. Chan Wai Kay Katherine
Units 3709-10, 37/F,
The Center,
99 Queen's Road Central,
Central, Hong Kong

China Energy Conservation and Environmental Protection
(Hong Kong) Investment Company Limited
Room 2302-03, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Financial adviser to the Company

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

**Independent financial adviser to
the Independent Board
Committee and the Independent
Shareholders**

Asian Capital (Corporate Finance) Limited
Suite 601
Bank of America Tower
12 Harcourt Road, Central, Hong Kong

Legal adviser to the Company

Li & Partners
22/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

Reporting accountants	SHINEWING (HK) CPA Limited Certified Public Accountants 43/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Branch share registrar and transfer office in Hong Kong	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

12. PARTICULARS OF DIRECTORS

(a) Biography of Directors

Executive Directors

Mr. An Yi

Mr. An Yi, aged 48, is the joint chairman of the Board and the executive Director since 30 March 2017. He graduated from Central University of Finance and Economics with a degree of infrastructure finance and credit in 1991. He is a doctoral candidate and senior researcher economist. He holds an Executive Master of Business Administration from University of Texas at Arlington. Since July 1991, he worked as an officer in Ministry of Aviation and Aerospace Industry, the deputy director of the Board of China Aviation Industry Corporation (China National Space Administration) and the director of China Aerospace Science & Industry Corporation. Since 2004, he served, in chronological order, Aerospace Science & Technology Finance Company Limited as the standing deputy general manager (director) and the general manager (director), as a full-time member of China Aerospace Science & Industry Corporation Supervision Committee and vice chairman of Aerospace Securities Company Limited. He joined China Energy Conservation Investments Company Limited in July 2008 as a general manager assistant and the head of financial department. He worked as a general manager assistant and the head of financial management department in China Energy Conservation and Environmental Protection Group since April 2010. Currently, he is the deputy general manager of China Energy Conservation and Environmental Protection Group, and the chairman of CECEP Capital Holdings Limited, the chairman of CECEP Finance Company Limited and the chairman of Sino-British Low Carbon Venture Capital Limited.

Mr. Xu Shengheng

Mr. Xu Shengheng, aged 54, is the joint chairman of the Board and the executive Director since 6 February 2009. He holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has long been engaged in the field of heating provision. Prior to year 2000, he mainly engaged in the combustion-based heating. Since year 2000, he is committed to non-combustion heating. The original renewable shallow ground

source energy collection technology developed by Mr. Xu has realized the industrialization development and is the core technology of the integrated heating/cooling emerging industry of the Group. Mr. Xu is also a director of most of the subsidiaries of the Company.

Ms. Chan Wai Kay Katherine

Ms. Chan Wai Kay Katherine, aged 57, is the deputy chairman of the Board and the executive Director since 6 February 2009. She holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and has extensive experience in supervising initial public offerings and other fund raising exercises conducted by companies in Asia. With various key positions previously held in listed companies, Ms. Chan has profound practicing knowledge in company's strategic planning and corporate management of listed companies. Ms. Chan is also a director of certain subsidiaries of the Company.

Mr. Wang Manquan

Mr. Wang Manquan, aged 54, is the chief executive officer since 13 July 2016 and executive Director since 29 December 2016. He is Senior Engineer and graduated from Beijing Municipal Committee of the CPC Party School with a bachelor's degree in Business Management in 2007. He joined in Ever Source Science and Technology Development Group Co., Limited, a wholly owned subsidiary of the Company, in 2001. Previously, Mr. Wang was the vice president of Ever Source Science and Technology Development Group Co., Ltd. and currently serves as the chief executive officer of the company and general manager of Ever Source Science and Technology Development Group Co., Ltd. Prior to joining in the Group, Mr. Wang served as the head of Beijing Haidian Sijiqing Heat Exchanger Factory. Mr. Wang has been engaged in leadership of project management for mechanical and electrical equipment installation for more than 15 years, and specializes in comprehensive application technology of geothermal energy heating system. He has extensive business management experience. Mr. Wang is also a director of certain subsidiaries of the Company.

Mr. Zang Yiran

Mr. Zang Yiran, aged 38, was a non-executive Director since 24 August 2012 and is the chief financial officer and executive Director since 22 March 2013. He graduated from Tianjin University of Finance & Economics with a Bachelor's degree. He commenced his career in September 1999 and worked as a director in Responsibility Accounting Centre of the Capital Operation Department of Tianjin First Center Hospital, a Business Manager of Financial Management Department of China Energy Conservation Investment Corporation ("CECIC"), an assistant to the Director of Financial Management Department of CECIC, an assistant to the Director of Financial Management Department of CECEP Group, the Deputy General Manager for CECEP (Hong Kong). Mr. Zang is also a director of certain subsidiaries of the Company.

Mr. Dai Qi

Mr. Dai Qi, aged 34, was a non-executive Director since 12 August 2013 and is an executive Director since 29 December 2016. He graduated from Southwest Jiaotong University with a master's degree of management. Previously, he worked at Beijing Dongcheng Branch of Shenzhen Development Bank as a senior account executive and held positions with Strategic Management Department of China Energy Conservation Investment Corporation and Strategic Management Department of CECEP Group. Besides, he acted as deputy general manager of Investment and Capital Operation Department of CECEP (Hong Kong). He has been acting as Administrative Director of the Company since September 2012. Mr. Dai is also currently the vice president of the Group and vice president of Ever Source Science and Technology Development Group Co. Ltd.

Non-executive Director**Mr. Zhao Youmin**

Mr. Zhao Youmin, aged 45, is a non-executive Director since 12 August 2013. He graduated from Capital University of Economics and Business with a master's degree of economics. He is a senior economist. Previously, he worked as an officer of Labor and Human Resources Division of Tianjin Electric Power Construction Company and held the positions of senior operations supervisor of Human Resource Department and secretary to deputy general manager with State Development & Investment Corporation. Afterwards, he acted as secretary to general manager of China Energy Conservation Investment Corporation, deputy general manager of CECEP Solar Energy Technology Co., Ltd. and director of Cooperation and Development Department of China Energy Conservation and Environmental Protection Group. Currently, he is an executive Director and the general manager of CECEP (Hong Kong) and the chairman of CECEP Environmental Consulting Group Co., Ltd.

Independent non-executive Directors**Mr. Jia Wenzeng**

Mr. Jia Wenzeng, aged 73, is an independent non-executive Director since 25 March 2009. He has been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Mr. Wu Desheng

Mr. Wu Desheng, aged 77, is an independent non-executive Director since 21 March 2012. He is the executive director of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, executive director of the Civil Engineering & Architectural Society of Beijing, the Education Supervisor and Adjunct Professor of Tsinghua University, Beijing University of Civil Engineering and Architecture and Xi'an Jiaotong University. Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963.

He worked as a technician at the Design Institute for Glass Industry of the Ministry of Construction between 1963 and 1971. Since 1971, he has been serving in various key positions at the Beijing Institute of Architectural Design, such as the Institute Head and Chief Engineer, and currently he is the Chief Consulting Engineer of the institute. Mr. Wu has obtained a number of awards, including the silver medal of the National Design Award and the National Labour Medal.

Mr. Wu Qiang

Mr. Wu Qiang, aged 57, is an independent non-executive Director since 29 December 2016. He graduated from China University of Geosciences, Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology, Beijing and a member of China Academy of Engineering. Mr. Wu was honored with the “Li Siguang Geological Science Award” and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first “Outstanding Postdoctoral Award of China”, “National Outstanding Teacher” and the State-selected candidate of the first project of “Hundreds, Thousands, and Ten Thousands of Talents for the New Century” of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is a member of the Executive Council of International Mine Water Association (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology, a member Commission of Technology under State Administration of Work Safety and the head of “Expert Panel on Hydrogeology” under the State Administration of Coal Mine Safety.

Mr. Wu has published many books and over 300 academic articles. His works were honored with two Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 40 invention patents were granted by Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. Mr. Wu has trained dozens of post-doctoral fellows and doctoral candidates. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the “Team of Safety in Mines” of China Association for Science and Technology.

Mr. Guo Qingui

Mr. Guo Qingui, aged 44, is an independent non-executive Director since 29 December 2016. He graduated from the School of Law of Zhengzhou University. Mr. Guo obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing) and King & Wood Mallesons. He currently serves as a managing partner and a lawyer of Zhongxin Law Firm in Beijing.

(b) Audit committee

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal controls systems of the Group and to provide advice to the Directors. The audit Committee comprises four independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the audit committee), Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours (other than Saturdays, Sundays and public holidays) at the principal office of the Company in Hong Kong at Units 3709-10, 37/F, The Center, 99 Queen's Road Central, Central, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.cgsenergy.com.hk) from the date of this circular up to and including the date of the EGM:

- (a) the Memorandum of Association and the Articles of Association of the Company;
- (b) the articles of association of CECEP (Hong Kong);
- (c) the annual reports of the Company for the two years ended 31 December 2015 and 2016;
- (d) the first quarterly report of the Company for the three months ended 31 March 2017;
- (e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (f) the letter from Asian Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Asian Capital" in this circular;
- (g) the letter from SHINEWING (HK) CPA Limited in respect of the unaudited pro forma financial information of the Group, the text of which is set out in appendix II to this circular;
- (h) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;
- (i) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (j) the service agreements referred to in the paragraph headed "Directors' Interests" in this appendix.

14. MISCELLANEOUS

- (a) The principal place of business in Hong Kong of the Company is Units 3709-10, 37/F, The Centre, 99 Queen's Road Central, Central, Hong Kong.
- (b) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary of the Company is Ms. Wong Lai Yuk, an associate member of The Hong Kong Institute of Chartered Secretaries.
- (d) The registered office of CECEP (Hong Kong) is situated at Room 2302-03, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong. The directors of CECEP (Hong Kong) are Mr. Zhao Youmin, Mr. Du Le, Ms. Wang Lijuan and Ms. Xu Genghong, all of Room 2302-03, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong, are principal members of parties acting in concert with CECEP (Hong Kong).
- (e) The principal place of business of CECEP Group 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). As at the Latest Practicable Date, CECEP (Hong Kong) is a wholly owned subsidiary of CECEP Group. The directors of CECEP Group are Liu Dashan, Wang Tongzhou, Wu Taishi, Zhang Xiaolu, Ju Zhanghua, Liu Maoxun, Jia Changbin, Jiang Kaixi and Zhu Min.
- (f) Save and except for Renminbi, the Group has no exposure to foreign exchange liabilities
- (g) In the event of inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

15. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, legal and accounting fees, are estimated to be not less than HK\$3.0 million and not more than HK\$3.1 million and will be payable by the Company.

NOTICE OF EGM



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 Unit 3709-10, 37/F, The Center, 99 Queen’s Road Central, Central, Hong Kong on Tuesday, 13 June 2017 at 11:00 a.m. 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

1. To re-elect Mr. An Yi as executive Director, Mr. Wu Qiang and Mr. Guo Qingui as independent non-executive Director and to authorise the board of Directors to fix their remuneration.
2. To consider and, if thought fit, to pass the following resolution as ordinary resolution:

“**THAT** the Whitewash Waiver (as defined in the circular dated 19 May 2017 of the Company (the “**Circular**”)) granted by the Executive (as defined in the Circular) pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) waiving any obligation (either unconditionally or subject to such conditions as may be required by the Executive) on the part of CECEP (Hong Kong), to make a mandatory general offer (arising as a result of the subscription of Underwritten Shares (as defined in the Circular) pursuant to the Underwriting Agreement (as defined in the Circular) and/or pursuant to any application for any excess Rights Shares accepted by the Company) for all the issued shares of the Company and cancel all outstanding options of the Company not already owned, controlled or agreed to be acquired by CECEP (Hong Kong) and the parties acting in concert with it, be and is hereby approved, and any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/she/they may, in his/her/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Whitewash Waiver and the transactions contemplated thereunder.”

Yours faithfully,

For and on behalf of

China Ground Source Energy Industry Group Limited

Xu Shengheng

Joint Chairman & Executive Director

Hong Kong, 19 May 2017

NOTICE OF EGM

As at the date of this notice, the Board comprises Mr. An Yi, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Zhao Youmin as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui 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 Wednesday, 7 June 2017 to Tuesday, 13 June 2017, 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 Tuesday, 6 June 2017.