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中國地熱能產業發展集團有限公司
CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

CONTINUING CONNECTED TRANSACTION

SALE AND PURCHASE FRAMEWORK AGREEMENT

The Board announces that on 26 June 2018, HYY, a wholly-owned subsidiary of the Company, and Sichuan Changhong entered into the Sale and Purchase Framework Agreement, pursuant to which, HYY and its associates intended to provide installation engineering services for air-conditioning home appliance products to Sichuan Changhong and its associates, and Sichuan Changhong and its associates intended to sell air-conditioning home appliance products to HYY and its associates, for a term commencing from the Effective Date to 31 December 2020.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, Hong Yuan Ground Source Heating Device Technology Co., Ltd. (宏源地能熱寶技術有限公司) is jointly invested by HYY and Sichuan Changhong, in particular, it is owned as to 51% by HYY and 49% by Sichuan Changhong. Under the definition of the GEM Listing Rules, Sichuan Changhong is a connected person of the Company at the subsidiary level. As such, the transaction contemplated under the Sale and Purchase Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Given that (i) Sichuan Changhong is a connected person of the Company at the subsidiary level; (ii) the Board has approved the transaction contemplated under the Sale and Purchase Framework Agreement; and (iii) the independent non-executive Directors have confirmed that the terms of the transaction contemplated under the Sale and Purchase Framework Agreement are fair and reasonable, and that such transaction is entered into on normal commercial terms, and is in the interests of the Company and its Shareholders as a whole. As such, the transaction contemplated under the Sale and Purchase Framework Agreement is subject to the reporting and announcement requirements, but is exempted from the circular, independent financial advice and Shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules.

SALE AND PURCHASE FRAMEWORK AGREEMENT

Date: 26 June 2018

Parties: 1. HYY and
2. Sichuan Changhong

Subject matters: HYY (on behalf of itself and its associates) agrees to provide to Sichuan Changhong (on behalf of itself and its associates), and Sichuan Changhong (on behalf of itself and its associates) agrees to purchase HYY Services under the Sale and Purchase Framework Agreement.

Sichuan Changhong (on behalf of itself and its associates) agrees to sell to HYY (on behalf of itself and its associates), and HYY (on behalf of itself and its associates) agrees to purchase Changhong Products under the Sale and Purchase Framework Agreement.

Both parties will enter into a detailed agreement specifying detailed terms for each continuing connected transaction pursuant to the terms and provisions set out in the Sale and Purchase Framework Agreement.

Term: For the period commencing from the Effective Date to 31 December 2020.

Pricing: The prices for the sale and purchase of the Products and Services in the detailed agreements will be determined after arm's length negotiations between both parties by fully considering the market conditions and on the basis of being fair and reasonable so far as the Shareholders of the Company are concerned. Both parties agree that the sale and purchase of the Products and Services under the Sale and Purchase Framework Agreement shall be conducted on the premise of compliance with the laws and fulfillment of both parties' business requirements, and meeting the business approval conditions and handling procedures.

The pricing terms of individual purchase orders will be determined in the following manner:

1. Prior to any purchase of Changhong Products under the Sale and Purchase Framework Agreement, the procurement department of HYY or its associates will review the quotations of relevant orders and ensure that such

quotations will be no higher than the prices of the same or similar products sold by independent third party suppliers. If the prices of Changhong Products are higher than the prices provided by independent third party suppliers, HYY will opt not to accept such quotations; and

2. The prices of HYY Services provided by HYY or its associates to Sichuan Changhong or its associates will be no lower than the prices of the same or similar services provided to independent third parties in its ordinary course of business.

Payment terms:

The payment terms for the Expenses in the detailed agreements will be determined after arm's length negotiations between both parties by fully considering the market conditions and on the basis of being fair and reasonable so far as the Shareholders of the Company are concerned.

Annual caps:

Pursuant to the detailed agreements entered into under the terms and provisions set out in the Sale and Purchase Framework Agreement, as to the amounts payable by the Buyer to the Seller in respect of the Products and Services from the Effective Date to 31 December 2020, the total amount paid in each calendar year shall not exceed the following cap for the corresponding year:

	From the Effective Date to 31 December 2018 (RMB'0000)	From 1 January 2019 to 31 December 2019 (RMB'0000)	From 1 January 2020 to 31 December 2020 (RMB'0000)
HYY			
Services	6,599	7,259	7,985
Changhong			
Products	15,250	16,775	18,452

The above annual caps are determined after considering (i) the prevailing market prices of the Products and Services; and (ii) the expected demands of both parties for the Products and Services during the term of the Sale and Purchase Framework Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE FRAMEWORK AGREEMENT

Sichuan Changhong is a home appliance manufacturer. We have commissioned Sichuan Changhong to manufacture air-conditioning home appliance products that meet the needs of customers in accordance with our design and requirements through this cooperation. As such, we can make the sale to our customers after purchasing the relevant Changhong Products. On the other hand, the Directors believe that the provision of HYY Services to Sichuan Changhong could result in a growth in the overall revenue and profits of the Group. In addition, such move could also facilitate the business cooperation between the Group and Sichuan Changhong.

The Directors (including the independent non-executive Directors) confirm that entering into the Sale and Purchase Framework Agreement is in the ordinary and usual course of business of the Group, and believe that the terms of the Sale and Purchase Framework Agreement are entered into on normal commercial terms, and are determined after arm's length negotiations among all relevant parties, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE GROUP AND HYY

The Company is an investment holding company, whose subsidiary, HYY, is principally engaged in the research, development and promotion of shallow geothermal 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 geothermal energy.

INFORMATION ON SICHUAN CHANGHONG

Sichuan Changhong, a home appliance company incorporated in the PRC, is principally engaged in the production, research and development, as well as the sale and operation of domestic air-conditioners, central air-conditioners and air-based water heaters (空氣源熱水器).

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, Hong Yuan Ground Source Heating Device Technology Co., Ltd. (宏源地能熱寶技術有限公司) is jointly invested by HYY and Sichuan Changhong, in particular, it is owned as to 51% by HYY and 49% by Sichuan Changhong. Under the definition of the GEM Listing Rules, Sichuan Changhong is a connected person of the Company at the subsidiary level. As such, the transaction contemplated under the Sale and Purchase Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Given that (i) Sichuan Changhong is a connected person of the Company at the subsidiary level; (ii) the Board has approved the transaction contemplated under the Sale and Purchase Framework Agreement; and (iii) the independent non-executive Directors have confirmed that the terms of the

transaction contemplated under the Sale and Purchase Framework Agreement are fair and reasonable, and that such transaction is entered into on normal commercial terms, and is in the interests of the Company and its Shareholders as a whole, the transaction contemplated under the Sale and Purchase Framework Agreement is subject to the reporting and announcement requirements, but is exempted from the circular, independent financial advice and Shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors is materially interested in the Sale and Purchase Framework Agreement and the transaction contemplated thereunder as at the date of this announcement. As such, none of the Directors shall abstain from voting on the relevant Board resolutions in respect of the Sale and Purchase Framework Agreement and the transaction contemplated thereunder.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors of the Company
“Buyer”	(1) Sichuan Changhong or its associates who purchase HYY Services at any time in the sale and purchase of HYY Services; and (2) HYY or its associates who purchase Changhong Products at any time in the sale and purchase of Changhong Products
“Changhong Products”	air-conditioning home appliance products
“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 the GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the GEM Listing Rules
“Directors”	the directors of the Company
“Effective Date”	the date of entering into the Sale and Purchase Framework Agreement

“Expenses”	the costs or expenses payable for a certain sale and purchase contemplated under the Sale and Purchase Framework Agreement, and such costs or expenses shall be determined in accordance with the detailed terms specified in the detailed agreement entered into for such sale and purchase
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Yuan Ground Source Heating Device Technology Co., Ltd.”	Hong Yuan Ground Source Heating Device Technology Co., Ltd. (宏源地能熱寶技術有限公司), a company incorporated in the PRC, which is owned as to 51% by HYY and 49% by Sichuan Changhong
“HYY”	Ever Source Science and Technology Development Group Co., Ltd. (恒有源科技發展集團有限公司), a wholly-owned subsidiary of the Company
“HYY Services”	the installation engineering services for air-conditioning home appliance products
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Products and Services”	HYY Services and Changhong Products
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Framework Agreement”	the framework agreement entered into between HYY and Sichuan Changhong in respect of the sale and purchase of HYY Services and Changhong Products on 26 June 2018
“Seller”	(1) HYY or its associates who provide HYY Services at any time in the sale and purchase of HYY Services; and (2) Sichuan Changhong or its associates who sell Changhong Products at any time in the sale and purchase of Changhong Products

“Shareholders”	the holders of the shares of the Company
“Sichuan Changhong”	Sichuan Changhong Air Conditioning Co., Ltd. (四川長虹空調有限公司), a company incorporated in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“%”	percent

By order of the Board
China Ground Source Energy Industry Group Limited
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 26 June 2018

As at the date of this announcement, the Board comprises Mr. An Yi, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Daiqi 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the website of the GEM at www.hkgem.com for at least 7 days from the date of publication and on the website of the Company at www.cgsenergy.com.hk.