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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)

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
THE SP FRAMEWORK AGREEMENT**

THE SP FRAMEWORK AGREEMENT

The 2016 SP Framework Agreement expired on 31 December 2018 and the Company and CECEP wish to enter into an agreement to renew the principal terms of the 2016 SP Framework Agreement. As a result, the Board announces that on 24 May 2019 (after trading hours), the Company entered into the SP Framework Agreement with CECEP pursuant to which, CECEP and its subsidiaries conditionally agreed to purchase, and the Company and its subsidiaries conditionally agreed to provide, the Products and the Services, subject to the terms and conditions provided therein for the period from the Effective Date to 31 December 2021. The proposed Supply Annual Caps shall not be more than the amounts prescribed pursuant to the SP Framework Agreement.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 1,190,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. Therefore, CECEP is a connected person of the Company pursuant to the GEM Listing Rules.

The entering into the SP Framework Agreement with CECEP constitutes continuing connected transactions on the part of the Company pursuant to Chapter 20 of the GEM Listing Rules. In addition, the highest applicable percentage ratios for the Supply Annual Caps are more than 5% but less than 25%, therefore the entering into of the SP Framework Agreement also constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. As a result, the SP Framework Agreement is subject to: (a) notification and announcement requirements under Chapter 19 of the GEM Listing Rules; and (b) non-exempt continuing connected transactions of the Company subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above, the Company will seek the Independent Shareholders' approval for the SP Framework Agreement, the SP CCT, and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM.

A circular which contains, among other information, (1) a letter from the Board containing further details of, inter alia, the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (3) a letter from the independent financial adviser to the Independent Board Committee in respect of the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (4) a notice of convening the EGM; and (5) other information as required under the GEM Listing Rules, will be despatched to the Shareholders as soon as practicable in accordance with GEM Listing Rules.

THE SP FRAMEWORK AGREEMENT

Date:

24 May 2019 (after trading hours)

Parties:

1. the Company (as vendor); and
2. CECEP (as purchaser)

Term:

For the period commencing from the Effective Date to 31 December 2021.

Description of the Supply Transactions:

The Company and its subsidiaries have conditionally agreed to sell, and CECEP and its subsidiaries have conditionally agreed to purchase, the Products and the Services during the term of the SP Framework Agreement, subject to the terms and conditions stated therein.

Products and Services:

The Group has an innovation known as "HYY single-well circulation for heat exchange geothermal energy collection technology", which is utilizing shallow geothermal energy as alternative energy for heating/cooling, resulting in products known as, "HYY ground source energy heat pump environmental system", "HYY ground energy heating device" and "HYY multi-source distributed energy stations".

The Group also provides operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products.

Conditions Precedent:

The taking effect of the SP Framework Agreement is conditional upon the Independent Shareholders' approval of (i) the SP Framework Agreement; (ii) the SP CCT and (iii) the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM. If the above conditions are not fulfilled on or before 30 June 2019 (or such later date as may be agreed between the parties), the SP Framework Agreement and all rights and obligations thereunder will be terminated, and no party shall have any claim against the other party except in respect of any antecedent breach.

Proposed Supply Annual Caps:

The Company proposed the Supply Annual Caps from the Effective Date to 31 December 2021 as follows:

	From the Effective Date to 31 December 2019	From 1 January 2020 to 31 December 2020	From 1 January 2021 to 31 December 2021
The Supply Transactions	RMB60,000,000	RMB60,000,000	RMB60,000,000

Basis of the selling price of the Products and the Services:

The actual selling price of the Products and the Services is to be determined after arm's length negotiations between the parties and having considered the market conditions and official guidelines and which shall be fair and reasonable for the Company and its Shareholders as a whole. Such selling price will not be less than the average price at which the Products and the Services are sold and provided by the Company and its subsidiaries to any third parties.

Basis of the proposed Supply Annual Caps:

The proposed Supply Annual Caps for the Supply Transactions for the period from the Effective Date to 31 December 2021 are determined by references to (a) the current price of the Products and Services; and (b) the expected demand of the Products and Services from CECEP and its subsidiaries during the term of the SP Framework Agreement in reference to the one sizeable project conducted in the year ended 31 December 2018.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SP FRAMEWORK AGREEMENT

The 2016 SP Framework Agreement expired on 31 December 2018 and the Company and CECEP wish to enter into an agreement to renew the principal terms of the 2016 SP Framework Agreement. The purpose is to continue the supply of the Products and the provision of Services by the Group to CECEP where it had enhanced the business cooperation between the Group and CECEP. As a result, the Company and CECEP entered into the SP Framework Agreement in relation to the Supply Transactions for the period from the Effective Date to 31 December 2021. The SP Framework Agreement, therefore, represents a continuance of the 2016 SP Framework Agreement.

The principal business of members of the Group is the distribution of Products and the provision of Services. Therefore, the SP Framework Agreement entered into by the respective parties is in the ordinary and usual course of business of the Group. The Directors (except the independent non-executive Directors whose view(s) will be contained in the circular to be despatched to the Shareholders) considered that:

- (a) the terms and conditions of the SP Framework Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms, which are fair and reasonable;
- (b) such selling price will not also be less than the average price at which the Products and the Services are sold and provided by the Company and its subsidiaries to any third parties;
- (c) the proposed Supply Annual Caps in respect of the Supply Transactions for the period from the Effective Date to 31 December 2021 as referred to above are fair and reasonable; and
- (d) the transactions contemplated therein will be conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

The Company confirms that there has not been and will not be transaction similar to the Supply Transactions conducted or to be conducted between the Group and CECEP from the expiry date of the 2016 SP Framework Agreement on 31 December 2018 to the Effective Date.

HISTORICAL TRANSACTION AMOUNTS

The relevant aggregated transaction amounts under the 2016 SP Framework Agreement for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 were approximately RMB1,292,000, RMB925,000, RMB43,907,000, respectively.

INFORMATION ON CECEP

CECEP is a company incorporated with limited liability in the PRC and is principally engaged in the research and development of energy conservation, environmental protection and new energy technology, investments in projects and construction operation.

INFORMATION ON THE GROUP

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

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 1,190,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. Therefore, CECEP is a connected person of the Company pursuant to the GEM Listing Rules.

The entering into the SP Framework Agreement with CECEP constitutes continuing connected transactions on the part of the Company pursuant to Chapter 20 of the GEM Listing Rules. In addition, the highest applicable percentage ratios for the Supply Annual Caps are more than 5% but less than 25%, therefore the entering into of the SP Framework Agreement also constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. As a result, the SP Framework Agreement is subject to: (a) notification and announcement requirements under Chapter 19 of the GEM Listing Rules; and (b) non-exempt continuing connected transactions of the Company subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CECEP (HK) and its associates will abstain from voting on the respective resolutions approving the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps at the EGM. To the best knowledge, information and belief of the Directors, as at the date of this announcement, no Shareholder (excluding CECEP (HK) and its associates) is required to abstain from voting on the resolutions approving the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps at the EGM.

GENERAL

A circular which contains, among other information, (1) a letter from the Board containing further details of, inter alia, the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (3) a letter from the independent financial adviser to the Independent Board Committee in respect of the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps; (4) a notice of convening the EGM; and (5) other information as required under the GEM Listing Rules, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

DEFINITIONS

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

“2016 SP Framework Agreement”	the framework agreement dated 4 May 2016 for the sale and purchase of the Products and Services entered into between the Company and CECEP
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CECEP”	China Energy Conservation and Environmental Protection Group* (中國節能環保集團有限公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CECEP (HK)”	China Energy Conservation Environmental Protection (Hong Kong) Investment Co., Limited (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by CECEP
“Company”	China Geothermal Industry Development Group Limited (中國地熱能產業發展集團有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Directors”	the directors of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the SP Framework Agreement
“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps for the period commencing from the Effective Date to 31 December 2021 in relation to the SP CCT
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM

“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HYY”	Ever Source Science and Technology Development Group Co., Ltd.* (恆有源科技發展集團有限公司), a wholly-owned subsidiary of the Company
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, established to advise the Independent Shareholders in respect of the terms of the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates, and any other persons who are required to abstain from voting on the respective resolutions on approving the SP Framework Agreement, the SP CCT and the proposed Supply Annual Caps for the period commencing from the Effective Date to 31 December 2021 at the EGM pursuant to the GEM Listing Rules
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Products”	products using “HYY single-well circulation for heat exchange geothermal energy collection technology”, an original innovation of the Group as a focus, and using shallow geothermal energy as an alternative energy for heating/cooling, including but not limited to, “HYY ground source energy heat pump environmental system”, “HYY ground energy heating device” and “HYY multi-source distributed energy stations”
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products
“Shareholders”	the holders of the Shares

“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“SP CCT”	the continuing connected transactions for the Services and Products between the Company and CECEP
“SP Framework Agreement”	the framework agreement dated 24 May 2019 for the sale and purchase of the Products and the provision of Services entered into between the Company and CECEP
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“Supply Annual Caps”	the annual caps for the SP CCT for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 of RMB60,000,000
“Supply Transactions”	the supply of the Products and the provision of Services under the SP Framework Agreement
“%”	per cent

By order of the Board of
China Geothermal Industry Development Group Limited
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 24 May 2019

As at the date of this announcement, the Board comprises Mr. Xu Shengheng, Ms. Wang Yan, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Yang Wei as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng and 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 GEM website with the domain name of www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the website of the Company at www.cgsenergy.com.hk.