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

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中國地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 TRANSACTIONS:
THE SP FRAMEWORK AGREEMENT**

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



Capitalized 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 4 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular. A letter from Hooray Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 13 to 24 of this circular.

A notice convening the EGM to be held at Units 3709-10, 37/F, The Center, 99 Queen's Road Central, Central, Hong Kong on Tuesday, 10 September 2019 at 11:00 a.m. is set out on pages 32 to 33 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

21 August 2019

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	11
Letter from Hooray Capital	13
Appendix – General Information	25
Notice of Extraordinary General Meeting	32

DEFINITIONS

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

“2016 SP Framework Agreement”	the framework agreement dated 4 May 2016 for the sale and purchase of the Products and the provision of the 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 and Environmental Protection (Hong Kong) Investment Co., Limited (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by CECEP
“Circular”	the circular of the Company dated 21 August 2019 in relation to, among other matters, details of, the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 to be considered and approved at the EGM
“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
“Director(s)”	the director(s) of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the SP Framework Agreement and the proposed Supply Annual Caps for the period commencing from the Effective Date to 31 December 2021
“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the SP Framework Agreement and the proposed Supply Annual Caps for the period commencing from the Effective Date to 31 December 2021

DEFINITIONS

“EGM Notice”	the notice of the EGM dated 21 August 2019
“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
“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 CCT under SP Framework Agreement and the proposed Supply Annual Caps
“Independent Financial Adviser” or “Hooray Capital”	Hooray Capital Limited, a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the SP CCT under the SP Framework and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates
“Latest Practicable Date”	16 August 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, 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”

DEFINITIONS

“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“SP CCT”	the continuing connected transaction 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 the 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 the Services under the SP Framework Agreement
“%”	per cent

* *For identification purposes only*

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

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Xu Shengheng
Ms. Wang Yan
Ms. Chan Wai Kay, Katherine
Mr. Wang Manquan
Mr. Zang Yiran
Mr. Dai Qi

Registered office:

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

Non-executive Directors:

Mr. Yang Wei
Mr. Wang Zhiyu

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

21 August 2019

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: THE SP FRAMEWORK AGREEMENT

INTRODUCTION

Reference is made to the announcements of the Company dated 24 May 2019, 27 May 2019 and 28 June 2019 respectively, in relation to the entering of the SP Framework Agreement. Pursuant to the requirements under the GEM Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM. The terms of the SP Framework Agreement are materially the same as the 2016 SP Framework Agreement, which was expired on 31 December 2018.

LETTER FROM THE BOARD

The purposes of this circular are to provide you with (1) a letter from the Board containing further details of the SP CCT under the SP Framework Agreement 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 CCT under the SP Framework Agreement and the proposed Supply Annual Caps; (3) a letter from Hooray Capital to the Independent Board Committee and the Independent Shareholders in respect of the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps; (4) a notice of convening the EGM; and (5) other information as required under the 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.

Definitive agreements will be entered between the Company and its subsidiaries and CECEP and its subsidiaries for the Products and the Services pursuant to the basis of the selling price of the Products and Services as described herein, subject to the provision set out in the section of “Internal Control”.

Products and Services:

The Group has an original innovation known as “HYY single-well circulation for heat exchange geothermal energy collection technology”, which is utilizing 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”.

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.

LETTER FROM THE BOARD

Conditions Precedent:

The taking effect of the SP Framework Agreement is conditional upon the Independent Shareholders' approval of (i) the SP Framework Agreement; and (ii) the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM. With reference to the Company's announcement dated 28 June 2019, if the above condition is not fulfilled on or before 30 September 2019 as extended from 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 principally referenced to official guidelines. However it is also subject to a number of other factors such as project size and execution details, prevailing market conditions and all comparable transactions with independent customers in the preceding half-year period.

Official guideline includes the Information of Construction and Engineering Costs of Beijing issued by Beijing Municipal Commission of Housing and Urban-Rural Development. Project execution details include constructional complexity, such as, including but not limited to, geological technical difficulties and complexity and specific specifications required by customer where higher complexity or specification usually results in higher selling price. The selling price of larger projects may experience an overall lower profit margins due to economies of scale. Market conditions represent the anticipated competition in tendering and the prevailing real estate development sentiments in the PRC, where higher degree of anticipated competition would result in lower selling price and so is under a weaker prevailing market condition.

Comparable transactions refer to the transactions sharing similarity in project size, execution details and prevailing market conditions.

Transactions with both independent customers and with CECEP will go through the same set of criteria for the purpose of ensuring the pricing terms of the Products and the Services will be in line with the comparable transactions with the independent customers of the Company under similar circumstances as depicted above.

LETTER FROM THE BOARD

As a result, the Company believes that the profit margins of the Products and the Services for businesses with independent third parties would be in line with those with CECEP under similar circumstances as depicted above.

The gross profit margins of the Products and Services for businesses with CECEP had been in the range between 12.20% and 27.56% between 2013 and 2018.

Basis of 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 the Services; and (b) the expected demand of the Products and the Services from CECEP and its subsidiaries during the term of the SP Framework Agreement in reference to the one sizeable project took place in the year ended 31 December 2018.

The one sizeable project is located in the province of Hebei, the PRC. It is a citizen service center consists of government centers, offices, convention, training and exhibition center and dormitories. The Group is responsible for the installation of geothermal energy station of the site. The revenue recorded from such project for the year ended 31 December 2018 was approximately RMB43,530,000. The Company considers such project is a typical sizeable project that the Company would encounter with CECEP.

Having considered the above, the Supply Annuals Caps are therefore revised downwards from those under 2016 SP Framework Agreement of RMB80,000,000 to RMB60,000,000, which is referenced to the relevant approximate amount of RMB43,530,000 recorded for the year ended 31 December 2018 with an added buffer of approximately 37.84%.

INTERNAL CONTROL

The personnel in the finance department of the Group in the PRC is/are responsible for reviewing, calculating or approving the selling price offered and the contracts with CECEP. Each of them is required to strictly follow the pricing procedures set out in the section of “Basis of the Selling Price of the Products and the Services” as described above, for the purpose of ensuring that the transactions contemplated under the SP Framework Agreement will be conducted on normal commercial terms and on terms similar to the independent customers which are not less favorable to the Company under similar circumstances. Such information will then be included in a report to be submitted to the chief financial officer of the Company for review, verification and approval for the purpose of entering into the relevant contracts.

Furthermore, the chief financial officer of the Company will also keep all records and monitor the accumulated amount of Supply Transactions. Prior to entering into any specific definitive contract with CECEP after the said review, the chief financial officer of the Company will also cross check the contract sum, the accumulated amount of the Supply Transactions and the proposed Supply Annual Caps to ensure the proposed Supply Annual Caps will not be exceeded after the entering of the proposed specific contract. The chief financial officer would warn against the Company to enter into any contract with CECEP that exceeds the proposed Supply Annual Caps.

LETTER FROM THE BOARD

The independent non-executive Directors and auditors of the Company will conduct an annual review on the Supply Transactions (including the pricing basis offered by the Company to CECEP) and provide their annual confirmations in accordance with the GEM Listing Rules that, among others, the relevant transactions are conducted in the ordinary and usual course of business of the Company and in accordance with the terms of the agreement that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, on normal commercial terms or better and in accordance with the pricing policy of the Company.

The above internal control procedures will be adopted by the Company for the Supply Transactions, of which is principally based on the internal control procedures adopted for the 2016 SP Framework Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SP FRAMEWORK AGREEMENT

As there was no order from CECEP after the expiry of the 2016 SP Framework Agreement, the Company did not consider there was an immediate need to renew the 2016 SP Framework Agreement. However, on or around end of March 2019, during the review of the financials for the year ended 31 December 2018, the Company came into a view that it hoped to continue to work along with CECEP on the basis that there was one sizeable project to work along with CECEP in the year ended 31 December 2018 and the Company and CECEP have maintained a good long term relationship, the Company therefore hoped to continue the trend to have one sizeable project to work with CECEP per year. Should the Company be seeking approval from Independent Shareholders upon receiving the actual order from CECEP, it may jeopardize the overall schedule of the project which may cause a disadvantage to the Company as a supplier. The purpose is to continue the supply of the Products and the provision of the Services by the Group to CECEP in a speedy manner where it had enhanced the business cooperation between the Group and CECEP and will increase the Group's revenue and will not cause any competition between CECEP's business and the Group's business. 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 the 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 (including the independent non-executive Directors after taking into account the advice of Hooray Capital) 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.

LETTER FROM THE BOARD

Since the expiry of the 2016 SP Framework Agreement, CECEP has not placed order as those similar to the Supply Transactions and the Company confirms that there has not been and will not be transactions similar to the Supply Transactions conducted or to be conducted between the Group and CECEP until the Effective Date.

HISTORICAL TRANSACTION AMOUNTS

Under the 2016 SP Framework Agreement, the annual caps were RMB80,000,000 for each of the calendar year ended 31 December 2018 and the relevant aggregated revenue recorded 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 Latest Practicable Date, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 1,190,000,000 Shares, representing approximately 27.82% 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 and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Pursuant to the GEM Listing Rules, CECEP (HK) and its associates will abstain from voting on the respective resolution approving the SP Framework Agreement and the proposed Supply Annual Caps at the EGM. As at the Latest Practicable Date, CECEP (HK) and its associates hold 1,190,000,000 Shares, representing 27.82% of the total issued share capital of the Company. To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, the associates of CECEP (HK) are not interested in any shares.

LETTER FROM THE BOARD

None of the Directors has any interest in the transactions contemplated under the SP Framework Agreement. However, as Ms. Wang Yan, Mr. Zang Yiran, Mr. Dai Qi and Mr. Yang Wei were nominated by CECEP as Directors, in particular, Ms. Wang Yan, Mr. Zang Yiran and Mr. Yang Wei are also employees of CECEP and/or its subsidiaries, therefore for the sake of good corporate governance as well as to avoid any potential conflict of interest, they voluntarily abstained from voting on the Board resolutions in relation to the SP Framework Agreement and proposed Supply Annual Caps.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages 32 to 33 of this circular, the ordinary resolution will be proposed to approve the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021.

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

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

RECOMMENDATION

The Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) considers that the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and will be similar to those offered to independent third parties which are not less favorable to the Group and in the interests of the Company and the Shareholders as a whole, and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 for the SP CCT is fair and reasonable. Accordingly, the Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) recommends the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021.

Yours faithfully,
By Order of the Board of
China Geothermal Industry Development Group Limited
Xu Shengheng
Joint Chairman & Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

21 August 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: THE SP FRAMEWORK AGREEMENT

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps relating thereto, details of which are set out in the “Letter from the Board” to the circular dated 21 August 2019 (the “**Circular**”) to the Shareholders, of which this letter forms a part. Terms defined in the Circular shall have the same meaning when used in this letter unless otherwise requires. Hooray Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Hooray Capital as set out in this circular.

We (i) have reviewed the SP Framework Agreement which we are of the view that terms thereunder are principally the same as those under the 2016 SP Framework Agreement; (ii) are in the opinion that the Supply Transactions to be provided by the Group to CECEP and its subsidiaries and the Products and the Services under the 2016 SP Framework Agreement provided by the Group to CECEP and its subsidiaries are similar in nature, both of which are part of the Group’s ordinary and usual course of business; (iii) are of view that the pricing policy for the Products and the Services that has been practicing by the Group is referenced to the official guidelines, prevailing market conditions, comparable transactions with independent

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

customers and other factors (such as project size and execution details) is fair and reasonable; and (iv) took into account the advice of Hooray Capital, we consider that the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps relating thereto are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, in the ordinary course of business and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the SP Framework Agreement and the proposed Supply Annual Caps relating thereto.

Yours faithfully,

For and on behalf of the Independent Board Committee
China Geothermal Industry Development Group Limited

Jia Wenzeng
*Independent non-
executive Director*

Wu Desheng
*Independent non-
executive Director*

Wu Qiang
*Independent non-
executive Director*

Guo Qingui
*Independent non-
executive Director*

LETTER FROM HOORAY CAPITAL

The following is the full text of a letter from Hooray Capital setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021, and other matters contemplated thereunder which has been prepared for the purpose of inclusion in this circular.



21 August 2019

To the Independent Board Committee and the Independent Shareholders,

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS: THE SP FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular dated 21 August 2019 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 24 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 sell and provide, the Products and the Services, subject to the terms and conditions provided therein for the period commencing from the Effective Date to 31 December 2021.

As at the Latest Practicable Date, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 1,190,000,000 Shares, representing approximately 27.82% of the total issued share capital of the Company. Thus, CECEP is a connected person of the Company pursuant to the GEM Listing Rules. Accordingly, the entering into of the SP Framework Agreement with CECEP constitutes continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules and is subject to reporting, annual review, announcement and independent shareholders' approval

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Hooray Capital Limited (CE No. AHF470)

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LETTER FROM HOORAY CAPITAL

requirements under Chapter 20 of the GEM Listing Rules. The Company will seek the Independent Shareholders' approval for the SP Framework Agreement and the proposed Supply Annual Caps at the EGM, and CECEP (HK) and its associates will abstain from voting on the resolution approving the SP Framework Agreement and the proposed Supply Annual Caps at the EGM. To the best knowledge, information and belief of the Directors, no Shareholder (excluding CECEP (HK) and its associates) is required to abstain from voting on the resolutions approving the SP Framework Agreement and the proposed Supply Annual Caps at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, has been formed to advise the Independent Shareholders to make a recommendation in respect of the fairness and reasonableness on the terms under the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps. We, Hooray Capital, have been appointed to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the SP CCT is conducted in the ordinary and usual course of business, the terms under the SP Framework Agreement are on normal commercial terms, and the SP CCT and the proposed Supply Annual Caps are fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favor of the approval of the SP Framework Agreement and the proposed Supply Annual Caps. Our appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with the Company pursuant to Rule 17.96 of the GEM Listing Rules. We have not acted as the independent financial adviser for the Company's other transactions in the past two years. We are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our appointment as the Independent Financial Adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider that we are eligible to give independent advice on the terms of the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management.

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

LETTER FROM HOORAY CAPITAL

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

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

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether to approve of the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021. Save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021, we have taken into account the principal factors and reasons as set out below:

1. Background of the Group

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

2. Background of CECEP

CECEP, a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC, is incorporated with limited liability in the PRC and is principally engaged in research and development of energy conservation, environmental protection and new energy technology, investments in projects and construction operation.

LETTER FROM HOORAY CAPITAL

3. Principal terms of the SP Framework Agreement

Date

24 May 2019 (after trading hours)

Parties

- (a) The Company (as vendor); and
- (b) CECEP (as purchaser)

Pursuant to the terms under the SP Framework Agreement, the Company and its subsidiaries have conditionally agreed to sell and provide, and CECEP and its subsidiaries have conditionally agreed to purchase, the Products and the Services from the Effective Date to 31 December 2021.

The Group has an original innovation known as “HYY single-well circulation for heat exchange geothermal energy collection technology”, which is utilizing shallow geothermal energy as an 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.

The taking effect of the SP Framework Agreement is conditional upon the Independent Shareholders’ approval of: (i) the SP Framework Agreement; and (ii) the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM. With reference to the Company’s announcement dated 28 June 2019, if the above conditions are not fulfilled on or before 30 September 2019 as extended from 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.

We have reviewed the SP Framework Agreement and have compared it with the 2016 SP Framework Agreement, which we are of the view that the terms thereunder are principally the same and are in the ordinary course of business of the Group.

4. Basis of the selling prices of the Products and the Services

Pursuant to the terms under the SP Framework Agreement, the actual selling prices of the Products and the Services are to be determined after arm’s length negotiations between the parties and principally referenced to official guidelines. However, it is also subject to other factors such as project size and execution details, prevailing market conditions and all comparable transactions with independent customers in the preceding half-year period.

LETTER FROM HOORAY CAPITAL

In respect of the basis of the selling prices of the Products and the Services in relation to the SP Framework Agreement, we have enquired the management of the Company and were given the understanding that such basis and those under the 2016 SP Framework Agreement are materially the same, of which the selling prices of the Products, where applicable, are further made reference to the Information of Construction and Engineering Costs* (工程造價信息, “ICEC”) as pricing reference which is issued by the local government where the respective project is to be carried out, and to be adjusted by various factors such as constructional complexity involved (including but not limited to, geological technical difficulties and complexity), additional value added services or workload required and customized specifications required. During the period under the 2016 SP Framework Agreement, majority of the projects of the Group were carried out in the provinces of Hebei and Jiangxi, and all the Products involved have made reference to the Information of Construction and Engineering Costs of Beijing* (北京市工程造價信息, “ICEC Beijing”) (the April 2019 edition can be found at <http://zjw.beijing.gov.cn/bjjs/resource/cms/article/304943/53591866/2019041615330019073.pdf>).

We have conducted our own research and reviewed and compared a) the ICEC Beijing; b) the consolidated ICEC published by 11 cities in Jiangxi (“ICEC Jiangxi”); and c) the data from “Zao Jia Tong” (造價通, www.zjtcn.com), a private database platform that covered pricing reference sourced from official data published by the government, suppliers, and historical transaction records across 326 major cities in the PRC. In our findings, the data from ICEC Beijing is more comprehensive and detailed than ICEC Jiangxi, with ICEC Beijing covered over 8,000 items alongside various specifications whereas the ICEC Jiangxi only covered approximately 360 items for April 2019. Also, according to Zao Jia Tong, the average number of official pricing references for Jiangxi and Hebei provinces were approximately 360 and 2,360 items, respectively, which were far less than the 8,000 items covered in ICEC Beijing. As a result, ICEC Jiangxi and pricing materials for Hebei may be insufficient to serve the Group as the pricing reference.

As confirmed by the Company, the ICEC Beijing only served as an initial core price reference, the actual product price would still subject to adjustments such as constructional complexity involved, market conditions, additional value-added services or workload required as per mentioned above. Furthermore, we have reviewed the similar items from the ICEC Beijing, ICEC Jiangxi and Zao Jia Tong and there is no substantial difference on the price of the items.

Despite the majority of the projects were not carried in Beijing, we are of the view that a) ICEC Beijing is a government-published materials which serve as a good pricing reference; b) ICEC Beijing has a more comprehensive and detailed list of items than the pricing materials for the Hebei and Jiangxi provinces; c) the Group has been making reference to the ICEC Beijing for years with other independent customers; and d) ICEC Beijing served as an initial core price reference and is still subject to adjustments such as constructional complexity and workload, we concur with the Company that referencing ICEC Beijing is fair and reasonable so far as the Independent Shareholders are concerned. For Products that are not included in the ICEC Beijing, the Group is charging at market comparable rates to ensure competitiveness. Since the Company has made references to the official guidelines and market comparable rates, we are in the opinion that the basis of the selling prices of the Products and the Services in relation to the SP Framework Agreement is fair and reasonable and on normal commercial terms. Furthermore, the management of the Company confirmed that they have applied the same standards to independent customers, as such, the gross profit margins of the Products and the Services for businesses with independent third parties and with CECEP would be similar if they share similar market conditions and has similar constructional complexity as discussed above, which we are of the view that the pricing policy

LETTER FROM HOORAY CAPITAL

for the SP CCT is not less favourable to the Group. For reference only, according to the information provided by the Company, the range of gross profit margins of the projects between CECEP and the Group from 2013 to 2018 was approximately from 12.20% to 27.56%.

Having considered that (i) the terms of the Products and the Services offered by the Group to CECEP and its subsidiaries will be similar to terms offered to independent third parties and are not less favorable to the Group; (ii) the pricing policy for the Products and the Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, which have been and will be consistently applied for the SP CCT under the SP Framework Agreement; and (iii) the Company has implemented internal control measures to ensure the responsible staff comply with the pricing guidelines of the Group (details of which are stated in the section headed “Internal Control” in the “Letter from the Board” and “6. Internal Control” in this letter below), we are of the view that the terms under the SP Framework Agreement and the pricing of the Products and the Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5. Basis of the proposed Supply Annual Caps

Set out below are the Supply Annual Caps in relation to the Supply Transactions for the period from the Effective Date to 31 December 2019 and the two years ending 31 December 2021:

	From Effective Date to 31 December 2019 (RMB)	From 1 January 2020 to 31 December 2020 (RMB)	From 1 January 2021 to 31 December 2021 (RMB)
The Supply Transactions	60,000,000	60,000,000	60,000,000

The historical annual caps under the 2016 SP Framework Agreement were as follow (the “**2016 Supply Annual Caps**”):

	From 26 September 2016 to 31 December 2016 (RMB)	From 1 January 2017 to 31 December 2017 (RMB)	From 1 January 2018 to 31 December 2018 (RMB)
The supply of the Products and provision of the Services under the 2016 SP Framework Agreement	80,000,000	80,000,000	80,000,000

LETTER FROM HOORAY CAPITAL

The actual utilized amount of the 2016 Supply Annual Caps were as follow:

	From 26 September 2016 to 31 December 2016 approximately (RMB)	From 1 January 2017 to 31 December 2017 approximately (RMB)	From 1 January 2018 to 31 December 2018 approximately (RMB)
Revenue recorded by the Group in respect of the 2016 SP Framework Agreement	1,292,000	925,000	43,907,000

According to the management of the Company, the Group would usually only allocate resources and manpower to projects for CECEP and its subsidiaries upon the entering of definitive agreement(s) between both parties. Therefore, since no definitive agreement in respect of the unutilized amount of the Products and the Services from the 2016 Supply Annual Caps was entered between the Group and CECEP, no cost was incurred to the Group in related to any unutilized 2016 Supply Annual Caps. Also, as advised by the Company, should the Company be seeking approval from Independent Shareholders upon receiving the actual order from CECEP, it may jeopardize the overall schedule of the project which may cause a disadvantage to the Company as a supplier.

We are advised by the management of the Company that the setting of the proposed Supply Annual Caps of RMB60,000,000 for the Supply Transactions for the period from the Effective Date to 31 December 2019 and the two years ending 31 December 2021 have taken into the account of the actual utilized amount of the year ended 31 December 2018 under the 2016 SP Framework Agreement. It is our understanding from the management of the Company that such amount was principally related to 1 sizeable project located in Hebei Province. It is a citizen service center consists of government centers, offices, convention, training and exhibition center and dormitories, and the revenue recorded from such project for the year ended 31 December 2018 was approximately RMB43.53 million. The management of the Company has confirmed that such project is a typical sizeable project that the Company would encounter with CECEP. As a result, the proposed Supply Annual Caps represent the size of that project in Hebei with a buffer of approximately 37.84% from the relevant sales amount recorded for the year from that project. The management of the Company indicated that the Company could be subject to 1 sizeable project with CECEP per year and the increment represents reasonable buffer in terms of accepting the business of 1 project with CECEP in comparable size.

In this regard, it is our opinion that it is reasonable to have the Supply Annual Caps to cater for 1 sizeable project with CECEP, which is in the ordinary course of business and the terms to be conducted in are fair and reasonable. We also concur that such increment of 37.84% would provide a reasonable buffer as compared to the amount fell under for the year ended 31 December 2018. Any significant decrease in the amount of the Supply Annual Caps would render the SP CCT impracticable.

LETTER FROM HOORAY CAPITAL

In addition, we are advised that the management of the Company realized that the state policies and guidances have always been very supportive in promoting the use of renewable and alternative energy in the PRC. We have discussed with the management of the Company in relation to the aforesaid the Company's reasons and conducted an independent research based on the information published by different governmental authorities of the PRC in this regard. In our findings, we noticed that:

- I. Under The National Energy Technology “Thirteenth Five Year Plan”* (國家能源科技「十三五」規劃)(2016-2020) published by the National Energy Administration, the National Development and Reform Commission and the Ministry of Land and Resources of the PRC in January 2017 (which can be found at www.nea.gov.cn/136035635_14863708180701n.pdf), it is the intention of the PRC government to accelerate the development of renewable and alternative energy and to promote the use of shallow geothermal energy for the five years from 2016 to 2020; and
- II. In a notice dated 29 December 2017 jointly issued by the National Development and Reform Commission, the Ministry of Land and Resources, the Ministry of Ecology and Environment, the Ministry of Housing and Urban-Rural Development, the Ministry of Water Resources and the National Energy Administration of the PRC titled “accelerating the development and the use of shallow ground geothermal energy and reducing the use of coal-fired in Northern part of China”* (關於加快淺層地熱能開發利用促進北方採暖地區燃煤減量替代的通知) (which can be found at http://www.gov.cn/xinwen/2018-01/08/content_5254446.htm), the PRC government is in the process to enhance and promote the use of shallow geothermal energy for heating and cooling, and that they are aiming to turn such energy to be an effective alternative energy in Northern part of China by the year of 2020. It also indicated the PRC government is very supportive to the technology development, construction and operational services of the shallow geothermal energy.

Based on the above, we concur with the management of the Company that the PRC government has been supportive in promoting the use of renewable and alternative energy, especially the shallow geothermal energy in the PRC.

Having considered (a) the Supply Annual Caps are referenced to the relevant sales amount recorded for the year ended 31 December 2018; (b) the government policies in the PRC are supportive in promoting the use of shallow geothermal energy, and (c) there will be no cost incurred to the Group for any unutilized amount under the proposed Supply Annual Caps for the Supply Transactions. Therefore, we concur with the view of the Company that the proposed Supply Annual Caps for the Supply Transactions for the period from the Effective Date to 31 December 2019 and each of the two years ending 31 December 2021 are appropriate, are fair and reasonable so far as the Independent Shareholders are concerned and do not represent any disadvantage to the Company and the Shareholders as a whole. Although the utilization rates for the 2 years ended 31 December 2016 and 2017 were relatively low, the utilization rate for the year ended 31 December 2018 was approximately 54.88%, which is due to the aforementioned project took place during the year ended 31 December 2018. Also, the Company envisaged to have one sizeable project to work along with CECEP per year, and the Supply Annual Caps made reference to the revenue recorded from 1 sizeable project for the year ended 31 December 2018 with an additional buffer as discussed above. Any scale less than 1 sizeable project may not be served as a meaningful reference. Therefore, we consider the proposed Supply Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM HOORAY CAPITAL

6. Internal Control

We are advised by the Company that the internal control procedures in relation to the Supply Transactions are principally based on the internal control procedures adopted for the 2016 SP Framework Agreement to ensure the SP CCT will be conducted in accordance with the terms under the SP Framework Agreement, which is on normal commercial terms and in compliance with the GEM Listing Rules. Also, the personnel in the finance department of the Group in the PRC is/are responsible for reviewing, calculating or approving the selling price offered and the contracts with CECEP. Each of them is required to strictly follow the pricing procedures set out in the section of “Basis of the selling price of the Products and the Services” as described in the “Letter from the Board”, for the purpose of ensuring that the transactions contemplated under the SP Framework Agreement will be conducted on normal commercial terms and on terms similar to the independent customers which are not less favorable to the Group under similar circumstances. Such information will then be included in a report to be submitted to the chief financial officer of the Group for review, verification and approval. The chief financial officer will keep all records and monitor the accumulated amount of Supply Transactions prior to the entering into any definitive contracts with CECEP, the chief financial officer will also cross check the contract sum, the accumulated amount of the Supply Transactions and the Supply Annual Caps to ensure the proposed Supply Annual Caps will not be exceeded. The chief financial officer would warn against the Company to enter any contract with CECEP that exceeds the Supply Annual Caps. For details, please refer to the section headed “Internal Control” in the “Letter from the Board”.

Other than reviewing and discussing with the management of the Company on the internal control, we have also compared the terms of the contracts entered with CECEP against the terms of contracts entered with independent third parties during the term of the 2016 SP Framework Agreement which we are of opinion that the terms therein are both similar in nature and on normal commercial terms. The terms of the contracts entered into between the Company and CECEP are not less favourable to the Group and in line with the comparable transactions with the independent customers of the Company and official pricing reference. As such, we believe that the internal control procedures are appropriate to safeguard the interest of the Company and Shareholders as a whole.

7. 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 the Services by the Group to CECEP where it had enhanced the business cooperation between the Group and CECEP. As a result, on 24 May 2019, 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 Directors have considered the following aspects:

- 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;

LETTER FROM HOORAY CAPITAL

- 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.

In assessing whether the Supply Transactions under the SP Framework Agreement are reasonable and beneficial to the Company and the Shareholders as a whole, we have discussed with the management of the Company in relation to the aforesaid the Company's reasons and benefits for entering into the SP Framework Agreement. We therefore agree that the SP Framework Agreement is in fact a continuance of the 2016 SP Framework Agreement, of which the transactions and terms thereunder are principally the same, and the continual working relationship between the Group and CECEP is beneficial to the Company and the Shareholders as a whole. With reference to our earlier analysis, as the Company has adequate internal control, and the relevant selling price would 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. Furthermore, 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.

In light of the above, we consider that the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps are in the ordinary and usual course of business of the Group, are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

Apart from reporting, announcement and Independent Shareholders' approval requirements as required pursuant to the GEM Listing Rules, the SP CCT under the SP Framework Agreement are subject to the annual review requirements under the Rules 20.53 to 20.57 of the GEM Listing Rules, in particular:

- i. the independent non-executive Directors must review the SP CCT under the SP Framework Agreement every year and confirm in the annual report whether the transactions have been entered into:
 - a) in the ordinary and usual course of business of the Group;
 - b) on normal commercial terms or better; and
 - c) according to the SP Framework Agreement governing the relevant transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- ii. the Company must engage its auditors to report on the SP CCT every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the SP CCT:
 - a) has not been approved by the Board;

LETTER FROM HOORAY CAPITAL

- b) was not entered into, in all material respects, in accordance with the SP Framework Agreement governing the transactions; and
 - c) has exceeded the proposed Supply Annual Caps in relation to the Supply Transactions.
- iii. the Company will comply with all other relevant requirements under the GEM Listing Rules.

RECOMMENDATION

Based on the aforementioned factors and having considered:

- i. the SP Framework Agreement is a continuance of the 2016 SP Framework Agreement, of which the transactions and terms thereunder are principally the same, on standard commercial terms and in arm's length basis, and in the ordinary and usual course of business of the Group;
- ii. the pricing policy for the Products and the Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, same of which will be consistently applied for the Supply Transactions under the SP Framework Agreement. The pricing as well as the terms in respect of the Products and the Services offered by the Group to CECEP and its subsidiaries are similar to those offered to independent third parties and are not less favorable to the Group;
- iii. the Supply Annual Caps are reasonable and there will be no cost incurred to the Group for unutilized amount under the proposed Supply Annual Caps in the future;
- iv. our findings of government's policies and guidances support the Company's view that the government of the PRC has been supportive in promoting the use of renewable and alternative energy in the PRC in recent years; and
- v. internal control measures to be adopted by the Group as stated in the section headed "Internal Control" in the "Letter from the Board" ensure the Supply Transactions to be conducted on normal commercial terms.

We are of view that the terms of the SP CCT under the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 are fair and reasonable, and the entering into such agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent

LETTER FROM HOORAY CAPITAL

Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the SP Framework Agreement and the proposed Supply Annual Caps for the period from the Effective Date to 31 December 2021 at the EGM.

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

Mr. Simon Ng is a licensed person under the SFO to engage in, inter alia, Type 6 (advising on corporate finance) regulated activity and has over 19 years of experience in investment banking and corporate finance.

(I) RESPONSIBILITY STATEMENT

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

(II) DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

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

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

Name of Director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in the Shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares					
Mr. Xu Shengheng (Note 1)	Beneficial owner	711,646,600 (L)		16.64%	37,725,148 (L)	750,354,548 (L)	17.54%
	Interest of spouse	982,800 (L)		0.02%	-		
Ms. Chan Wai Kay Katherine (Note 2)	Beneficial owner	58,290,400 (L)		1.36%	43,788,119 (L)	116,182,119 (L)	2.72%
	Interest of spouse	14,103,600 (L)		0.33%	-		
Mr. Wang Manquan (Note 3)	Beneficial owner	716,800 (L)		0.02%	30,314,851 (L)	31,031,651 (L)	0.73%
Mr. Jia Wenzeng (Note 4)	Beneficial owner	-		-	4,827,920 (L)	4,827,920 (L)	0.11%
Mr. Wu Desheng (Note 5)	Beneficial owner	-		-	3,143,762 (L)	3,143,762 (L)	0.07%
Mr. Wang Zhiyu (Note 6)	Interest of spouse	250,000,000 (L)		5.85%	-	250,000,000 (L)	5.85%

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

Notes:

1. Mr. Xu Shengheng (“**Mr. Xu**”) is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu, holds 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk is interested.
2. Ms. Chan Wai Kay Katherine (“**Ms. Chan**”) is interested in 58,290,400 shares and 43,788,119 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond (“**Mr. Chow**”), spouse of Ms. Chan, holds 14,103,600 Shares. Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow is interested.
3. Mr. Wang Manquan is interested 716,800 Shares and 30,314,851 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
4. Mr. Jia Wenzeng is interested in 4,827,920 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
5. Mr. Wu Desheng is interested in 3,143,762 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
6. Ms. Liu Ening (“**Ms. Liu**”), the spouse of Mr. Wang Zhiyu (“**Mr. Wang**”), holds 250,000,000 Shares. Therefore, under the SFO, Mr. Wang is deemed to be interested in 250,000,000 Shares in which Ms. Liu is interested.

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

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (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 of directors was authorized, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Scheme, to subscribe for shares in the Company under the terms of the Share Option Scheme. As at Latest Practicable Date, the following directors of the Company were interested in the following options under the Share Option Scheme:

Name of Director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at Latest Practicable Date
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.379	13,024,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.379	19,087,129
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.379	1,871,288
		9 September 2012 to 8 September 2020	0.379	1,871,288
		9 September 2013 to 8 September 2020	0.379	1,871,285
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.379	1,684,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762

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

(III) EMPLOYMENT OF DIRECTORS WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, Ms. Wang Yan and Mr. Zang Yiran are directors of the Company and employees of CECEP and Mr. Yang Wei is a director of the Company and employee of CECEP (HK).

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

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Company were made up.

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

(V) DIRECTORS' SERVICE CONTRACTS

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

(VI) COMPETITION AND CONFLICT OF INTERESTS

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

(VII) INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS' INTEREST

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

Long Positions and Short Positions in Shares and Equity Derivatives

Name	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares	Approximate percentage of interests in the Shares			
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	1,190,000,000 (L)	27.82%	-	1,190,000,000 (L)	27.82%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	1,190,000,000 (L)	27.82%	-	1,190,000,000 (L)	27.82%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	982,000 (L)	0.02%	-	750,354,548 (L)	17.54%
	Interest of spouse	711,646,600 (L)	16.64%	37,725,148 (L)		
Ms. Liu Ening	Beneficial owner	250,000,000 (L)	5.85%	-	250,000,000 (L)	5.85%

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

Notes:

- China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of CECEP, therefore, under the SFO, CECEP is deemed to be interested in 1,190,000,000 Shares.
- Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu Shengheng (“**Mr. Xu**”), holds 982,800 Shares. Mr. Xu is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 711,646,600 Shares and 37,725,148 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

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

(VIII) MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Company were made up.

(IX) QUALIFICATIONS AND CONSENT OF EXPERT

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

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

As at the Latest Practicable Date, Hooray Capital did not have 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.

As at the Latest Practicable Date, Hooray Capital did not have 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 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

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

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

(X) GENERAL

- (a) the principal place of business of CECEP is at Jieneng Mansion, No. 42 Xizhimen North Street, Haidian District, Beijing, the PRC (中國北京市海澱區西直門北大街42號節能大廈);
- (b) the Hong Kong branch 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, Hong Kong; and
- (c) in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

(XI) DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the SP Framework Agreement;
- (b) the letter from the Board, the text of which is set out in this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from Hooray Capital, the text of which is set out in this circular; and
- (e) the consent letter of Hooray Capital as referred to in the section headed "Qualifications and Consent of Expert" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Geothermal Industry Development Group Limited (the “**Company**”) will be held at Units 3709-10, 37/F, The Center, 99 Queen’s Road Central, Central, Hong Kong on Tuesday, 10 September 2019 at 11:00 a.m. or any adjournment thereof to consider and, if thought fit, pass, with or without amendment, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the agreement (the “**SP Framework Agreement**”) dated 24 May 2019 entered into between the Company (as vendor) and China Energy Conservation and Environmental Protection Group* (“**CECEP**”) (as purchaser) pursuant to which the Company and its subsidiaries have conditionally agreed to sell and provide CECEP and its subsidiaries the following products and services:
- (i) the products using “**HYY single-well circulation for heat exchange geothermal energy collection technology**”, an original innovation of the Company and its subsidiaries 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**” (the “**Products**”); and
- (ii) the 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 (the “**Services**”),

for the term commencing from the date of the approval of the shareholders of the Company (excluding China Energy Conservation and Environmental Protection (Hong Kong) Investment Co., Limited and its associates) of the SP Framework Agreement (the “**Effective Date**”), to 31 December 2021, a copy of which is produced to the meeting marked “**A**” and initialed by the chairman of the meeting for identification purpose, and the transactions thereunder be and are hereby confirmed, approved and ratified, and any one director of the Company be and is hereby authorized to take such actions and execute such documents (to be countersigned by another director of the Company if the common seal of the Company is required to be affixed thereto) as he may consider necessary or desirable to carry out and complete the transactions thereunder; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the proposed aggregate annual caps for the supply of the Products and the provision of the Services by the Company and its subsidiaries under the SP Framework Agreement for each of the three periods, (1) from the Effective Date to 31 December 2019; (2) from 1 January 2020 to 31 December 2020; and (3) from 1 January 2021 to 31 December 2021, are RMB60,000,000, be and are hereby approved.”

Yours faithfully,

By order of the Board of

China Geothermal Industry Development Group Limited

Xu Shengheng

Joint Chairman & Executive Director

Hong Kong, 21 August 2019

* *For identification purposes only*

As at the date of this notice, 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 and Mr. Wang Zhiyu as non-executive Directors, 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 needs not be a member of the Company.
2. To be valid, the 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 17M 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 Thursday, 5 September 2019 to Tuesday, 10 September 2019, 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 Wednesday, 4 September 2019.