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If you are in any doubt as to any aspect of this circular or as to what action to take, you should consult your stockbroker or other registered dealers in securities, bank manager, solicitor, professional accountant or other professional adviser.

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 the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



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)

- 1) CONNECTED TRANSACTIONS
IN RELATION TO
(A) RECEIVING FINANCIAL ASSISTANCE
(B) ENTERING INTO OF GUARANTEE SERVICE AGREEMENT
(C) GRANTING OF COUNTER GUARANTEE**

2) SHARE CONSOLIDATION

AND

3) NOTICE OF EXTRAORDINARY GENERAL MEETING

**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 5 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from Asian Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 23 to 38 of this circular.

A notice convening the EGM to be held at Units 3709-10, 37/F, The Centre, 99 Queen's Road Central, Central, Hong Kong on 13 March 2020 at 11:00 a.m. is set out on pages 46 to 50 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM 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, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

21 February 2020

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.

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Bank”	China Construction Bank Corporation, a joint stock limited company duly incorporated in the PRC with limited liability and the H-shares of which are listed on the main board of the Stock Exchange
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“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
“connected transaction(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consolidated Share(s)”	ordinary share(s) with a par value of US\$0.1 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Counter Guarantee”	the counter guarantee granted by HYH to CECEP under the Counter Guarantee Agreement

DEFINITIONS

“Counter Guarantee Agreement”	the counter guarantee agreement dated 16 December 2019 and entered into between HYY, as counter-guarantor, and CECEP, as guarantor, in respect of the Counter Guarantee
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge), and the Share Consolidation
“EGM Notice”	the notice of the EGM dated 21 February 2020
“Existing Share(s)”	ordinary share(s) with a par value of US\$0.01 each in the share capital of the Company before the Share Consolidation becoming effective
“Facility”	a facility in the principal amount of RMB400,000,000 to be granted by the Bank to HYY under the Facility Agreement
“Facility Agreement”	a facility agreement to be entered into between the Bank and HYY for the Facility
“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
“Guarantee”	a guarantee to be provided by CECEP under the Guarantee Contract in favour of the Bank to secure the repayment obligations of HYY under the Facility Agreement
“Guarantee Contract”	a guarantee contract to be entered into between CECEP as guarantor and the Bank as lender in relation to the Guarantee
“Guarantee Fee”	the guarantee fee of 1% per annum on any outstanding amount of the Facility payable by HYY to CECEP under the Guarantee Service Agreement
“Guarantee Service”	the provision of the Guarantee by CECEP in favour of the Bank pursuant to the Guarantee Contract to secure the repayment obligations of HYY under the Facility Agreement

DEFINITIONS

“Guarantee Service Agreement”	the guarantee service agreement dated 16 December 2019 entered into between CECEP and HYY for provision of the Guarantee Service
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“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 transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge)
“Independent Financial Adviser” or “Asian Capital”	Asian Capital Limited (卓亞融資有限公司), a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and 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 transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge)
“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 transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge)
“Latest Practicable Date”	20 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	the Hong Kong branch share registrar of the Company, being Computershare Hong Kong Investor Services Limited as at the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the holders of the Shares
“Shareholder’s Loan”	an unsecured shareholder’s loan in the principal amount of RMB400,000,000 at an interest rate of 4.35% per annum granted by CECEP to HYY on 12 September 2019, which is repayable on demand
“Share(s)”	the Existing Share(s) or the Consolidated Share(s), as the case may be
“Share Consolidation”	the proposed share consolidation of every ten (10) issued and unissued Existing Shares into one (1) Consolidated Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“%”	per cent

* *For identification purposes only*

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

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 Michael Zhiyu

(Ms. Liu Ening being his alternate Director)

Mr. Zhang Yiying

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 February 2020

To the Shareholders,

Dear Sir or Madam,

**1) CONNECTED TRANSACTIONS
IN RELATION TO
(A) RECEIVING FINANCIAL ASSISTANCE
(B) ENTERING INTO OF GUARANTEE SERVICE AGREEMENT
(C) GRANTING OF COUNTER GUARANTEE**

2) SHARE CONSOLIDATION

AND

3) NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

I. INTRODUCTION

The main purpose of this circular is to provide you with (a) further details of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge); (b) the recommendation from the Independent Board Committee to the Independent Shareholders relating to the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge); (c) the letter of advice from Asian Capital to the Independent Board Committee and the Independent Shareholders relating to the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge); (d) further details of Share Consolidation; (e) the notice of the EGM; and (f) other information as required under the GEM Listing Rules.

II. CONNECTED TRANSACTIONS IN RELATION TO (A) RECEIVING FINANCIAL ASSISTANCE (B) ENTERING INTO OF GUARANTEE SERVICE AGREEMENT (C) GRANTING OF COUNTER GUARANTEE

Reference is made to the announcement of the Company dated 16 December 2019 in relation to, among other things, the proposed terms of the Facility Agreement and the Guarantee Contract, and the principal terms of the Guarantee Service Agreement and the Counter Guarantee Agreement.

Background

On 12 September 2019, CECEP granted the Shareholder's Loan to HYY in anticipation of repayment as soon as HYY obtaining alternative financing. As CECEP is in need of HYY's repayment of the Shareholder's Loan for its general working capital purpose and in light of the progress of HYY's negotiation on the Facility, HYY has recently received a demand for repayment from CECEP to repay the Shareholder's Loan within ten (10) working days upon obtaining approval from the Independent Shareholders at the EGM.

In order to repay the Shareholder's Loan, HYY (an indirect wholly-owned subsidiary of the Company) intends to apply for the Facility in the principal amount of RMB400,000,000 from the Bank under the Facility Agreement.

Pursuant to the requirements of the Bank, the Guarantee from CECEP to secure the repayment obligations of HYY in favour of the Bank is required for the application of the Facility.

On 16 December 2019, CECEP and HYY entered into the Guarantee Service Agreement, pursuant to which, in consideration of HYY's provision of the Guarantee Fee, CECEP agreed to provide the Guarantee Service to HYY.

As requested by CECEP, on 16 December 2019, HYY entered into the Counter Guarantee Agreement in favour of CECEP against all amounts which may be incurred by CECEP under the Guarantee.

The proposed terms of the Facility Agreement and the Guarantee Contract, and the principal terms of the Guarantee Service Agreement and the Counter Guarantee Agreement are set out below.

LETTER FROM THE BOARD

Proposed Terms of the Facility Agreement

Lender	:	the Bank
Borrower	:	HYY
Facility amount	:	RMB400,000,000
Interest rate	:	not exceeding 5% per annum
Term	:	no less than 1 year
Purpose	:	the Facility shall be applied and used by HYY for its general working capital purpose including repayment of the Shareholder's Loan

Proposed Terms of the Guarantee Contract

Guarantor	:	CECEP
Lender	:	the Bank
Scope and amount of the Guarantee	:	The scope of the Guarantee under the Guarantee Contract includes the loan principal of RMB400,000,000, interests (including default interests and compound interests), default payment, liquidated damages, any monies payable by HYY to the Bank, and any incurred cost and expenses for realising the creditor's right and guarantee interest under the Facility Agreement.
Term of the Guarantee	:	The term of the Guarantee shall expire (3) three years after the due date for performance of obligations under the Facility Agreement (only applicable when performance of obligations under the Facility Agreement is outstanding after such due date)

Principal Terms of the Guarantee Service Agreement

Date	:	16 December 2019
Parties	:	(1) CECEP; and (2) HYY

LETTER FROM THE BOARD

Guarantee Service : Subject to the fulfilment of conditions under the Guarantee Service Agreement, CECEP agreed to provide the Guarantee to the Bank pursuant to the Guarantee Contract.

Guarantee Fee : HYY shall pay to CECEP the Guarantee Fee at 1% per annum on any outstanding principal amount of the Facility under the Facility Agreement. The Guarantee Fee is payable within ten (10) days after the Facility is granted by the Bank and on the corresponding day each year thereafter.

The Guarantee Fee is agreed between HYY and CECEP after arm's length negotiations and is determined with reference to the relatively large amount of the Facility, the term of the Facility, and the risk exposure of CECEP in providing the Guarantee Service and the rate of guarantee fee for obtaining similar guarantee service in the PRC market.

Conditions : The Guarantee Service Agreement takes effect upon, among other things, the Guarantee Contract being executed by CECEP, the Guarantee becoming effective and approval from the Independent Shareholders at the EGM being obtained.

Governing law : PRC laws

Principal Terms of the Counter Guarantee Agreement

Date : 16 December 2019

Parties : (1) HYY as counter-guarantor; and
(2) CECEP as guarantor

Counter Guarantee : Subject to the fulfilment of conditions under the Counter Guarantee Agreement, HYY shall grant the Counter Guarantee to CECEP for the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank.

LETTER FROM THE BOARD

- Joint liability guarantee : HYY shall provide guarantee to CECEP by way of joint liability guarantee for payment by CECEP under the Guarantee to the Bank.
- Additional pledge and counter guarantee (the “**Additional Pledge**”) :
- (1) HYY shall enter into a pledge counter guarantee agreement in favour of CECEP in respect of HYY’s interest in China Asset Management – Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恆有源海外定向資產管理計劃);
 - (2) HYY shall procure Ever Source Investment Management Company Limited* (恆有源投資管理有限公司) (an indirect wholly-owned subsidiary of the Company) to enter into a pledge counter guarantee agreement in favour of CECEP in respect of its 4.9997% equity interest in Beijing Life Insurance Co., Ltd.;
 - (3) HYY shall procure shareholder(s) of Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威 (杭州) 生物科技有限公司) (“**Hangzhou Goodway**”) (an indirect wholly-owned subsidiary of the Company) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in Hangzhou Goodway; and (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of Hangzhou Goodway (as particularised in the Counter Guarantee Agreement); and
 - (4) HYY shall procure shareholder(s) of Heng Run Feng Reality (Dalian) Company Ltd.* (恆潤豐置業(大連)有限公司) (an indirect wholly-owned subsidiary of the Company) (“**HRF**”) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in HRF; and (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of HRF (as particularised in the Counter Guarantee Agreement).

LETTER FROM THE BOARD

- Undertakings : HYY undertakes and agrees throughout the continuance of the Counter Guarantee Agreement that it and its subsidiaries will not, save with CECEP's prior written consent,
- (i) provide any form of guarantee to any third parties by further pledging any of the assets, properties and equity interests under the Additional Pledge;
 - (ii) provide any credit guarantee; or
 - (iii) lease or attempt to lease any of the lands and buildings of Hangzhou Goodway and HRF (as particularised in the Counter Guarantee Agreement)
- Conditions : The Counter Guarantee Agreement takes effect upon obtaining approval from the Independent Shareholders at the EGM.
- Term : The term of the Counter Guarantee shall expire
- (i) two (2) years after CECEP, on behalf of HYY, fulfills all repayment obligations under the Facility Agreement; or
 - (ii) in the event that CECEP has not fulfilled all repayment obligations under the Facility Agreement on behalf of HYY, on the date whereupon CECEP's obligations under the Guarantee are fully discharged for whatever reasons, whichever is earlier.
- Governing law : PRC laws

LETTER FROM THE BOARD

Value of the Additional Pledge

The estimated fair value of the Additional Pledge are as follows:

Additional Pledge	Estimated fair value (RMB million)	Remarks
(i) Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恆有源海外定向資產管理計劃)	52.41	Note 1
(ii) 4.9997% equity interest in Beijing Life Insurance Co., Ltd.	158.22	Note 1
(iii) 100% equity interests in Hangzhou Goodway	132.00	Note 1
(iv) 100% equity interests in HRF	342.80	Note 1
Total:	<u>685.43</u>	

Note:

1. Please refer to the letter from Asian Capital on Pages 23 to 38 of this Circular for the work done relating to the estimated fair value.

Reasons for and Benefits of the Guarantee Contract, Guarantee Service Agreement and Counter Guarantee Agreement

The Company is in need of the Facility from the Bank for its general working capital purpose including repayment of the Shareholder's Loan and the Guarantee to be provided by CECEP is requested by the Bank as a condition of granting the Facility to HYY. The proposed terms and conditions of the Facility, including the requirement of the provision of the Guarantee by CECEP, are negotiated between the parties on an arm's length basis and are on normal commercial terms or better. Furthermore, due to the relatively high credit rating of CECEP, HYY is expected to obtain more favourable terms if CECEP provides the Guarantee for application of the Facility.

The terms of the Guarantee Service Agreement, including the amount of the Guarantee Fee, were agreed between HYY and CECEP after arm's length negotiations and were determined with reference to (i) the relatively large amount of the Facility to be granted, (ii) the risk exposure of CECEP in providing the Guarantee Service; and (iii) the rate of guarantee fee for obtaining similar guarantee service in the PRC market.

The Counter Guarantee and the Additional Pledge under the Counter Guarantee Agreement are provided and shall take effect on the condition that CECEP shall provide the Guarantee in favour of the Bank for the purpose of facilitating the application of Facility by HYY. The underlying value of the Counter Guarantee and the Additional Pledge together shall be comparable to the scope and amount of the Guarantee.

LETTER FROM THE BOARD

In view of the above, the Directors (excluding Ms. Wang Yan, Mr. Zang Yiran, Mr. Dai Qi and Mr. Yang Wei who have abstained from voting at the relevant Board meeting, and the Independent Board Committee after taking into account the advice of Asian Capital) considered that while the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) are not in the ordinary and usual course of business of the Group, the transactions contemplated therein are on normal commercial terms and are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

Information About the Company, the Group, CECEP and the Bank

The Company and 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.

CECEP

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

The bank

China Construction Bank Corporation is a joint stock commercial bank in the PRC which is listed on the Hong Kong Stock Exchange (stock code 939) and the Shanghai Stock Exchange (stock code 601939). Its main businesses are corporate banking, personal banking, treasury business and other businesses including overseas business and subsidiaries. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Bank is a third party independent of the Company and its connected persons.

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 26.29% of the total issued share capital of the Company. Therefore, CECEP is a connected person of the Company pursuant to the GEM Listing Rules. Accordingly, the receiving of financial assistance by way of the Guarantee, the entering into of the Guarantee Service Agreement and the granting of the Counter Guarantee (including the Additional Pledge) constitute connected transactions of the

LETTER FROM THE BOARD

Company under Chapter 20 of the GEM Listing Rules, and the relevant percentage ratio(s) of the Company exceeds 5% and therefore are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Directors' Interests in the Transactions

None of the Directors has any interest in the transactions contemplated under the Guarantee Contract, Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge). 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, among other things, the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge).

III. PROPOSED SHARE CONSOLIDATION

Reference is made to the announcement of the Company dated 14 February 2020 in respect of the proposed Share Consolidation. The Board proposes to implement the Share Consolidation on the basis that every ten (10) issued and unissued Existing Shares with a par value of US\$0.01 each will be consolidated into one (1) Consolidated Share with a par value of US\$0.10 each.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is US\$160,000,000 divided into 16,000,000,000 Existing Shares with a par value of US\$0.01 each, out of which 4,526,925,163 Existing Shares have been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation becoming effective, on the basis that the Company does not allot, issue or repurchase any Existing Shares from the date hereof until the effective date of the Share Consolidation, the authorised share capital of the Company shall become US\$160,000,000 divided into 1,600,000,000 Consolidated Shares with a par value of US\$0.10 each, of which 452,692,516 Consolidated Shares will be in issue.

Upon the Share Consolidation becoming effective, the Consolidated Shares shall rank *pari passu* in all respects with each other. Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests or rights of the Shareholders, save for any fractional Consolidated Shares which will not be allocated to the Shareholders who may otherwise be entitled to.

LETTER FROM THE BOARD

Conditions of the Share Consolidation

The Share Consolidation is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the Listing Committee granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued (including the Consolidated Shares which may fall to be allotted and issued upon exercise of each of the existing share options) upon the Share Consolidation becoming effective; and
- (iii) the compliance with all relevant procedures and requirements under the laws of Cayman Islands (where applicable) and the GEM Listing Rules to effect the Share Consolidation.

Subject to the fulfilment of the conditions of the Share Consolidation, the effective date of the Share Consolidation is expected to be on Tuesday, 17 March 2020 being the second Business Day after the EGM.

Application for the listing of the Consolidated Shares

An application will be made by the Company to the Listing Committee for granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued (including the Consolidated Shares which may fall to be allotted and issued upon exercise of each of the existing share options) upon the Share Consolidation becoming effective.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, upon the Share Consolidation becoming effective, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

None of the Existing Shares are listed or dealt in on any other stock exchanges other than the Stock Exchange, and at the time when the Share Consolidation becomes effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

LETTER FROM THE BOARD

Board lot size

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in the board lot size of 8,000 Existing Shares. Upon the Share Consolidation becoming effective, the board lot size for trading in the Consolidated Shares will remain as 8,000 Consolidated Shares.

Based on the closing price of HK\$0.051 per Existing Share (equivalent to the theoretical closing price of HK\$0.51 per Consolidated Share) as at the Latest Practicable Date, the value of each board lot of the Existing Shares is HK\$408 and the theoretical market value of each board lot of the Consolidated Shares, assuming the Share Consolidation had become effective, would be HK\$4,080.

Other Arrangements

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares, if any, will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Existing Shares regardless of the number of existing share certificates held by such holder.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares as a result of the Share Consolidation, the Company has appointed Mason Securities Ltd. as an agent to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares during the period from 9:00 a.m. on Tuesday, 31 March 2020 to 4:10 p.m. on Wednesday, 22 April 2020 (both days inclusive). Shareholders who wish to take advantage of this facility should contact Mr. Chan Kit Wai, James (telephone number: 852-2218 2904) or Mr. Ho Kwan Hung, Alex (telephone number: 852-2218 2873) of Mason Securities Ltd. at Portion 1, 12/F, The Center, 99 Queen's Road Central, Hong Kong during office hours (i.e. 9:00 a.m. to 5:30 p.m.) of such period.

Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation becoming effective, which is currently expected to be on Tuesday, 17 March 2020, being the second Business Day after the EGM, Shareholders may during the period from Tuesday, 17 March 2020 to Friday, 24 April 2020 (both days inclusive), submit their existing share certificates for the Existing Shares, which are in yellow colour, to the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716,

LETTER FROM THE BOARD

17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to exchange for new share certificates for the Consolidated Shares, which will be in brown colour at the expenses of the Company.

It is expected that new share certificates for the Consolidated Shares will be available for collection within 10 Business Days from the date of submission for the exchange. Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 each (or such other amount as may from time to time be specified by the Stock Exchange) will be payable by the Shareholders to the Registrar for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the Consolidated Shares, whichever the number of share certificates cancelled/issued is higher.

After 4:10 p.m. on Wednesday, 22 April 2020, existing share certificates for the Existing Shares will only remain effective as documents of title and may be exchanged for certificates for the Consolidated Shares at any time but will not be accepted for delivery, trading and settlement purposes.

Adjustments to the Existing Share Options

As at the Latest Practicable Date, there are outstanding share options entitling the holders thereof to subscribe for up to an aggregate of 486,182,851 Existing Shares.

The Share Consolidation may cause adjustments to the exercise prices and/or number of Shares which may fall to be issued upon exercise of the share options pursuant to the terms of share option scheme. Further announcement(s) will be made by the Company regarding the adjustments as and when appropriate.

Save for the aforesaid, as at the Latest Practicable Date, the Company has no other outstanding options, warrants or securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Existing Shares or Consolidated Shares, as the case may be.

Reasons for the Share Consolidation

Pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or proceed with a consolidation or splitting of securities. The "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 30 August 2019 has further stated that (i) any trading price less than HK\$0.10 will be considered as approaching the extremities of HK\$0.01 as referred to under Rule 17.76 of the GEM Listing Rules and (ii) taking into account the minimum transaction costs for a securities trade, the expected board lot value should be greater than HK\$2,000.

In view of the prevailing trading price of the Existing Shares which is approaching the abovementioned threshold of extremities and the value per board lot being less than HK\$2,000, the Board proposes to implement the Share Consolidation. The proposed Share Consolidation will

LETTER FROM THE BOARD

increase the nominal value of the Shares and reduce the number of Shares currently in issue. It is expected to bring about a corresponding upward adjustment in the trading price per Consolidated Shares on the Stock Exchange and increase the trading value of each board lot to a reasonable level. The Board believes that the higher trading price of the Consolidated Shares will enhance the Company's corporate image and therefore attract investors to invest in the Company which is beneficial to both the Company and the Shareholders.

Save for the relevant expenses, including but not limited to professional fees and printing charge to be incurred by the Company, the implementation of the Share Consolidation will not alter the underlying assets, business operations, management or the financial position of the Company or the proportionate interests or rights of the Shareholders.

Given the foregoing, the Company considers the proposed Share Consolidation is justifiable in light of the potential costs and to maintain compliance with the GEM Listing Rules. Accordingly, the Directors consider that the Share Consolidation is beneficial to and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has no intention to carry out other corporate actions in the next 12 months which may have an effect of undermining or negating the intended purpose of the Share Consolidation, and save as the proposed Facility as disclosed above, the Company does not have any concrete plan to conduct any fund raising activities in the next 12 months. However, the Board cannot rule out the possibility that the Company will conduct debt and/or equity fund raising exercises when suitable fund raising opportunities arise in order to support future development of the Group. The Company will make further announcement in this regard in accordance with the GEM Listing Rules as and when appropriate.

Expected Timetable

The expected timetable for the implementation of the Share Consolidation is set out below:

Despatch date of circular with notice of the EGM Monday, 24 February 2020

Latest date and time for lodging transfer documents
in order to qualify for attending and voting at the EGM 4:30 p.m. on Friday,
6 March 2020

Closure of the register of members for
the entitlement to attend and vote at the EGM Monday, 9 March 2020
to Friday, 13 March 2020
(both days inclusive)

Latest date and time for lodging the
proxy forms for the EGM 11:00 a.m. on Wednesday,
11 March 2020

LETTER FROM THE BOARD

Date and time of the EGM 11:00 a.m. on Friday,
13 March 2020

Publication of announcement of poll results of the EGM Friday, 13 March 2020

The following events are conditional on the fulfilment of the conditions for the implementation of the Share Consolidation

Effective date of the Share Consolidation Tuesday, 17 March 2020

First day for free exchange of existing share certificates
for new share certificates for the Consolidated Shares 9:00 a.m. on Tuesday,
17 March 2020

Dealing in the Consolidated Shares commences 9:00 a.m. on Tuesday,
17 March 2020

Original counter for trading in the Existing Shares
in board lots of 8,000 Existing Shares
(in the form of existing share certificates)
temporarily closes 9:00 a.m. on Tuesday,
17 March 2020

Temporary counter for trading in the Consolidated
Shares in board lots of 800 Consolidated Shares
(in the form of existing share certificates) opens 9:00 a.m. on Tuesday,
17 March 2020

Original counter for trading in the Consolidated
Shares in board lots of 8,000 Consolidated Shares
(in the form of new share certificates) re-opens 9:00 a.m. on Tuesday,
31 March 2020

Parallel trading in the Consolidated Shares
(in the form of existing share certificates and
new share certificates) commences 9:00 a.m. on Tuesday,
31 March 2020

Designated broker starts to stand in the market to
provide matching services for odd lots of
Consolidated Shares 9:00 a.m. on Tuesday,
31 March 2020

LETTER FROM THE BOARD

Temporary counter for trading in the Consolidated Shares in board lots of 800 Consolidated Shares (in the form of existing share certificates) closes 4:10 p.m. on Wednesday, 22 April 2020

Parallel trading in the Consolidated Shares (in the form of new share certificates and existing share certificates) ends 4:10 p.m. on Wednesday, 22 April 2020

Designated broker ceases to stand in the market to provide matching services for odd lots of Consolidated Shares 4:10 p.m. on Wednesday, 22 April 2020

Last day for free exchange of existing share certificates for new share certificates for the Consolidated Shares 4:30 p.m. on Friday 24 April 2020

Warning

Shareholders should take note that the Share Consolidation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Share Consolidation” above. Therefore, the Share Consolidation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

IV. EXTRAORDINARY GENERAL MEETING

The EGM will be held to consider and, if thought fit, pass the ordinary resolution(s) to approve, among other things, (i) the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge); and (ii) the Share Consolidation. CECEP(HK), being the substantial Shareholder directly holding approximately 26.29% of the entire issued share capital of the Company, and its associates will abstain from voting on the relevant resolutions in respect of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is no other Shareholder who has a material interest in the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) which is required to abstain from voting at the EGM.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there was (i) no voting trust or other agreement or arrangement or understanding entered into or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

V. RECOMMENDATION

The Board has established the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, to advise the Independent Shareholders in respect of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge).

Asian Capital has been appointed by the Board as the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge). Asian Capital considers that the terms and conditions of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) are on normal commercial terms and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Asian Capital containing its recommendation is set out on pages 23 to 38 of this circular.

The Independent Board Committee, having taken into account the recommendation of Asian Capital, considers that while the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) are not in the ordinary and usual course of business of the Group, the transactions contemplated therein are (i) in the interest of the Company and Shareholders as a whole; and (ii) on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge).

VI. GENERAL INFORMATION

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

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

* *For identification purposes only*

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge).



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 February 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
IN RELATION TO
(A) RECEIVING FINANCIAL ASSISTANCE
(B) ENTERING INTO OF GUARANTEE SERVICE AGREEMENT
AND
(C) GRANTING OF COUNTER GUARANTEE**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge), details of which are set out in the “Letter from the Board” to the circular dated 21 February 2020 (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. Asian 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 Asian Capital as set out in this circular.

After taking into consideration of the advice from Asian Capital, we concur with the view of Asian Capital and consider that while the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge) are not in the ordinary and usual course of business of the Group, the transactions contemplated therein are fair and reasonable and are on normal commercial terms, and in the interest of the Company and the Shareholders as a whole. Accordingly, we

LETTER FROM INDEPENDENT BOARD COMMITTEE

recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (including the Additional Pledge).

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 ASIAN CAPITAL

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



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

*To the Independent Board Committee and the Independent Shareholders of
China Geothermal Industry Development Group Limited*

21 February 2020

Dear Sirs,

**CONNECTED TRANSACTIONS
IN RELATION TO
(A) RECEIVING FINANCIAL ASSISTANCE
(B) ENTERING INTO OF GUARANTEE SERVICE AGREEMENT
AND
(C) GRANTING OF COUNTER GUARANTEE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Guarantee Service Agreement and the Counter Guarantee Agreement (the “**Transactions**”), particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 12 September 2019, CECEP granted the Shareholder’s Loan to HYY on the basis that HYY would repay it upon obtaining alternative financing. CECEP has recently demanded that HYY repay the Shareholder’s Loan within ten working days upon obtaining approval from the Independent Shareholders at the EGM. As such, the Company is in need of the Facility from the Bank for its general working capital purpose including refinancing the existing loan owing by HYY. The Bank has required the Guarantee from CECEP to secure the repayment obligations of HYY in favour of the Bank for the application for the Facility. On 16 December 2019, CECEP and HYY entered into the Guarantee Service Agreement, pursuant to which, in consideration of HYY’s provision of the Guarantee Fee, CECEP agreed to provide the Guarantee Service to HYY. As requested by CECEP, HYY entered into the Counter Guarantee Agreement in favour of CECEP against all amounts which may be incurred by CECEP under the Guarantee on the same day.

LETTER FROM ASIAN CAPITAL

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 26.29% of the total issued share capital of the Company. CECEP is therefore a connected person of the Company and the Transactions constitute connected transactions under Chapter 20 of the GEM Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements, as the relevant percentage ratio(s) of the Company exceeds 5%.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) how to vote in respect of the Transactions after taking into account our recommendations.

As at the Latest Practicable Date, we do not have any relationship with or interest in the Company and any of its associates that can reasonably be regarded as relevant to our independence. We did not act as an independent financial adviser and did not provide any other services to the Company in the last two years. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company. As such, we consider ourselves independent of the Company pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, *inter alia*, the Guarantee Service Agreement, the Counter Guarantee Agreement, the announcement of the Company dated 16 December 2019 in relation to the Transactions and the Circular. We have also relied on (i) our discussions with the Directors and the senior management of the Company (collectively, the "**Management**"); (ii) our research on market data, including but not limited to, similar transactions conducted by other listed companies on the Stock Exchange and corporate credit reports of CECEP and HYY published by public business data search platforms; (iii) management assessment on the value of the Additional Pledge; and (iv) statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the Management. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us are true and accurate at the time they were made and continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects.

We consider that we have been provided with, and we have reviewed all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Transactions to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have not, however, conducted any

LETTER FROM ASIAN CAPITAL

independent verification of the information included in the Circular and provided to us by the Management nor have we conducted any independent investigation into the business, financial conditions and affairs or future prospect of the Group.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transactions, and except 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 arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have principally considered the following factors:

1. Background Information

(i) *Principal business of the Group*

With reference to the Letter from the Board, 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 industrialisation 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.

(ii) *Financial information of the Group*

The consolidated financial information of the Group extracted from the Company's annual report for the year ended 31 December 2017, annual report for the year ended 31 December 2018 (the "Annual Report 2018") and interim report for the six months ended 30 June 2019 (the "Interim Report 2019") are as follows:

<i>(HK'\$000)</i>	For the year ended		For the six months ended	
	31 December	30 June	30 June	2019
Consolidated income statement	2017	2018	2018	2019
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover	778,153	396,793	278,522	103,468
Profit /(loss) for the year/period	3,962	(418,511)	3,661	(67,409)

<i>(HK'\$000)</i>	As at 31 December		As at 30 June
	2017	2018	2019
Consolidated statement of financial position	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	3,100,265	2,493,664	2,513,999
Total liabilities	1,413,235	1,408,802	1,455,801
Net asset	1,687,030	1,084,862	1,058,198

LETTER FROM ASIAN CAPITAL

For the year ended 31 December 2018, the Group's turnover amounted to approximately HK\$396.8 million, representing a decrease of approximately 49.0% as compared to the year ended 31 December 2017. With reference to the Annual Report 2018, such decrease was mainly due to (i) many of the contracts originally under negotiation were not realised and (ii) the progress of construction project was delayed owing to the slowdown in construction sector. During the year, the Group posted a loss attributable to Shareholders of approximately HK\$418.5 million, as compared to a profit attributable to Shareholders of approximately HK\$4.0 million for the previous year.

For the six months ended 30 June 2019, the Group's turnover amounted to approximately HK\$103.5 million, representing a decrease of approximately 62.9% as compared to the six months ended 30 June 2018. With reference to the Interim Report 2019, such decrease was mainly due to (i) continuous weak macroeconomic trend such that the government and enterprise have slowed their investment in construction and (ii) the large decline in the business in Beijing market, a principal market of the Company's business. As a result of the significant decline in revenue, the Group recorded a loss attributable to Shareholders of approximately HK\$67.4 million, as compared to a profit attributable to Shareholders of approximately HK\$3.7 million for the corresponding period in 2018.

As at 31 December 2017, the Group recorded total assets, total liabilities and net asset value attributable to Shareholders of approximately HK\$3,100.3 million, HK\$1,413.2 million and HK\$1,687.0 million respectively.

As at 31 December 2018, the Group recorded total assets, total liabilities and net asset value attributable to Shareholders of approximately HK\$2,493.7 million, HK\$1,408.8 million and HK\$1,084.9 million respectively.

As at 30 June 2019, the Group recorded total assets, total liabilities and net asset value attributable to Shareholders of approximately HK\$2,514.0 million, HK\$1,455.8 million and HK\$1,058.2 million respectively.

(iii) Information of CECEP

With reference to the Letter from the Board, CECEP, a company incorporated with limited liability in the PRC, is a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of 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. As advised by the Management, CECEP has been a substantial Shareholder since 2012.

(iv) Information of the Bank

With reference to the Letter from the Board, China Construction Bank Corporation is a joint stock commercial bank in the PRC which is listed on the Stock Exchange (stock code 939) and the Shanghai Stock Exchange (stock code 601939). Its main businesses are corporate banking, personal banking, treasury business and other businesses including overseas business and subsidiaries. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Bank is a third party independent of the Company and its connected persons.

LETTER FROM ASIAN CAPITAL

2. Reasons for and benefits of the Transactions

As set out in the Letter from the Board, the Company is in need of the Facility from the Bank for its general working capital purpose including repaying the Shareholder's Loan and the Guarantee to be provided by CECEP is requested by the Bank as a condition of granting the Facility to HYY. The terms and conditions of the Facility, including the requirement of the provision of the Guarantee by CECEP, are negotiated between the parties on an arm's length basis and are on normal commercial terms or better to HYY. Furthermore, as CECEP has a better credit rating, it is expected that HYY will be offered more favourable terms if CECEP provides the Guarantee for the application for the Facility.

The terms of the Guarantee Service Agreement, including the amount of the Guarantee Fee, were agreed between HYY and CECEP after arm's length negotiations and were determined with reference to (i) the amount of the Facility to be granted; (ii) the risk exposure of CECEP in providing the Guarantee Service; and (iii) the rate of guarantee fee for obtaining similar guarantee service in the PRC market.

The Counter Guarantee and the Additional Pledge under the Counter Guarantee Agreement shall take effect on the condition that CECEP provides the Guarantee in favour of the Bank for the purpose of facilitating the application for Facility by HYY. The underlying value of the Counter Guarantee and the Additional Pledge together shall be comparable to the scope and amount of the Guarantee.

We have discussed with the Management and are given to understand that it has been difficult for the Company to procure a guarantor for the necessary guarantee given the Group's current financial situation and operating performance and the size of the Facility. As advised by the Management, the Guarantee from CECEP, who has a better credit rating, is a prerequisite for the Bank to grant the Facility. We are also given to understand that CECEP provided similar guarantee service to HYY for another debt financing arrangement in 2016 and is willing to provide the Guarantee on the condition that HYY agrees to enter into the Counter Guarantee Agreement to mitigate CECEP's risk exposure. As advised by the Management, HYY can obtain more favourable terms for the Facility when CECEP provides the Guarantee for the Facility. We have reviewed the corporate credit reports of CECEP and HYY and noted that CECEP has a higher credit rating than HYY. Based on the aforementioned, we concur with the Management's view that the Transactions is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Guarantee Service Agreement

Date	:	16 December 2019
Parties	:	(1) CECEP; and (2) HYY
Guarantee Service	:	Subject to the fulfilment of conditions under the Guarantee Service Agreement, CECEP agreed to provide the Guarantee in favour of the Bank pursuant to the Guarantee Contract.

LETTER FROM ASIAN CAPITAL

Guarantee Fee : HYY shall pay CECEP the Guarantee Fee at 1% per annum on any outstanding principal amount of the Facility under the Facility Agreement. The Guarantee Fee is payable within ten (10) days after the Facility is granted by the Bank and on the corresponding day each year thereafter.

The Guarantee Fee is agreed between HYY and CECEP after arm's length negotiations and is determined with reference to the amount of the Facility, the term of the Facility, the risk exposure of CECEP in providing the Guarantee Service and the rate of guarantee fee for obtaining similar guarantee service in the PRC market.

Conditions : The Guarantee Service Agreement takes effect upon, among other things, the Guarantee Contract being executed by CECEP, the Guarantee becoming effective and approval from the Independent Shareholders at the EGM being obtained.

Governing law : PRC laws

4. Fairness and reasonableness of the Guarantee and Guarantee Fee

(i) *Obligation under the Guarantee*

As set out in the Letter from the Board, the Company is in need of the Facility from the Bank for its general working capital purpose including refinancing an existing loan owing by HYY, and the Guarantee to be given by CECEP is at the request of the Bank as a pre-condition for granting the Facility to HYY.

We understand that the Guarantee Fee is agreed between HYY and CECEP after arm's length negotiations and is determined with reference to (i) the proposed terms of the Facility; (ii) the risk exposure of CECEP in providing the Guarantee Service; and (iii) the cost for similar guarantee service in the PRC market.

In assessing the fairness and reasonableness of the terms and arrangement of the Guarantee Service Agreement, to the best of our knowledge, we have identified an exhaustive list of transactions involving the provision of guarantee between other listed companies and their respective connected persons disclosed in their relevant announcements or circulars on the website of the Stock Exchange from 1 January 2019 to 31 January 2020. We are of the view that our review period of thirteen months has provided us with general market information on guarantee fee arrangement for our assessment. As shown in the relevant announcements or circulars, we find that there were similar

LETTER FROM ASIAN CAPITAL

guarantee service arrangements entered into for the debt financing activities conducted by those listed companies with their related parties. Details of these guarantee service arrangements are summarised as follows:

Date of announcement/ circular	Company name (stock code)	Transaction details	% of the guarantee fee to the relevant guaranteed amount
24 December 2019	Central China Real Estate Limited (832) ("CCREL")	CCREL provided the corporate guarantee in favour of a bank for the repayment obligations of a company indirectly wholly-owned by a connected person of CCREL for a loan of RMB500 million.	1%
25 November 2019	CK Asset Holdings Limited (1113) ("CKAL")	CKAL provided the guarantees to the lenders to facilitate the grant of the loan facilities of up to US\$550 million to a commonly held entity of CKAL.	0.45%
20 August 2019	Ground International Development Limited (989) ("GIDL")	A subsidiary of GIDL provided guarantee services to a company owned by connected persons of GIDL in relation to a bank loan with an aggregate principal amount of RMB110 million.	1.85%
8 August 2019	Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (1543) ("GDJS")	GDJS provided the guarantee in favour of the bank for the repayment obligations of one of its connected person for the loan of RMB20 million.	2%
2 August 2019	Legend Holdings Corporation (3396) ("Legend")	A subsidiary of Legend provided a guarantee to secure the whole amount of the term loan (a maximum amount of US\$130 million) together with any interest and other fees payable by an associate of Legend.	1%

LETTER FROM ASIAN CAPITAL

Date of announcement/ circular	Company name (stock code)	Transaction details	% of the guarantee fee to the relevant guaranteed amount
3 January 2019	Tian Shan Development (Holding) Limited (2118) ("TS Development")	A subsidiary of TS Development provided guarantee service to a connected person of TS Development in relation to a bank loan in amount of RMB70 million.	3.5%
	Maximum		3.5%
	Minimum		0.45%
	Median		1.43%
	Average		1.63%
	HYY		1%

As shown in the table above, the guarantee fee to the relevant guaranteed amount of the loans range from 0.45% to 3.5%, with a median of approximately 1.43% and an average of approximately 1.63%. The Guarantee Fee of 1% is within the range and lower than the average.

Moreover, we have discussed with the Management and are given to understand that CECEP and HYY entered into a similar guarantee service agreement in 2016. We have reviewed such guarantee service agreement, pursuant to which, CECEP agreed to provide a guarantee for a 3-year term loan in the amount of RMB400 million granted to HYY by a PRC bank with a guarantee fee of 2% per annum on the amount of the loan. Based on our review, we are of the view that the Guarantee Fee, being substantially lower than the guarantee fee previously charged by CECEP in 2016, is fair and reasonable.

(ii) Our View

Having considered (i) the Guarantee Fee of 1% is within the range and lower than the average of the comparable loans; (ii) the reasons for entering into the Guarantee Service Agreement; and (iii) the amount of guarantee fee paid to CECEP for the similar loan in 2016, we consider that the Guarantee and the Guarantee Fee under the Guarantee Service Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5. Principal terms of the Counter Guarantee Agreement

Date	:	16 December 2019
Parties	:	(1) HYY as counter-guarantor; and (2) CECEP as guarantor

LETTER FROM ASIAN CAPITAL

- Counter Guarantee : Subject to the fulfilment of conditions under the Counter Guarantee Agreement, HYY shall grant the Counter Guarantee to CECEP for the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank.
- Joint liability guarantee : HYY shall provide guarantee to CECEP by way of joint liability guarantee for payment by CECEP under the Guarantee to the Bank.
- Additional pledge : (1) HYY shall enter into a pledge counter guarantee agreement in favour of CECEP in respect of HYY's interest in China Asset Management – Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恆有源海外定向資產管理計劃);
- (2) HYY shall procure Ever Source Investment Management Company Limited* (恆有源投資管理有限公司) (an indirect wholly-owned subsidiary of the Company) to enter into a pledge counter guarantee agreement in favour of CECEP in respect of its 4.9997% equity interest in Beijing Life Insurance Co., Ltd.;
- (3) HYY shall procure shareholder(s) of Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威(杭州)生物科技有限公司) (“**Hangzhou Goodway**”) (an indirect wholly-owned subsidiary of the Company) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in Hangzhou Goodway and; (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of Hangzhou Goodway (as particularised in the Counter Guarantee Agreement); and

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- (4) HYY shall procure shareholder(s) of Heng Run Feng Reality (Dalian) Company Ltd.* (恆潤豐置業(大連)有限公司) (an indirect wholly-owned subsidiary of the Company) (“HRF”) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in HRF and; (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of HRF (as particularised in the Counter Guarantee Agreement).

- Undertakings : HYY undertakes and agrees throughout the continuance of the Counter Guarantee Agreement that it and its subsidiaries will not, save with CECEP’s prior written consent,
- (i) provide any form of guarantee to any third parties by further pledging any of the assets, properties and equity interests under the Additional Pledge; or
 - (ii) provide any credit guarantee; or
 - (iii) lease or attempt to lease any of the lands and buildings of Hangzhou Goodway and HRF (as particularised in the Counter Guarantee Agreement).
- Conditions : The Counter Guarantee Agreement takes effect upon obtaining approval from the Independent Shareholders at the EGM.
- Term : The term of the Counter Guarantee shall expire:
- (i) two (2) years after CECEP, on behalf of HYY, fulfills all repayment obligations under the Facility Agreement; or
 - (ii) in the event that CECEP has not fulfilled all repayment obligations under the Facility Agreement on behalf of HYY, on the date whereupon CECEP’s obligations under the Guarantee are fully discharged for whatever reasons, whichever is earlier.
- Governing law : PRC laws

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6. Fairness and reasonableness of the obligations under the Counter Guarantee

(i) *Obligation under the Counter Guarantee*

In assessing the fairness and reasonableness of the terms and arrangement of the Counter Guarantee, to the best of our knowledge, we have identified an exhaustive list of transactions involving the provision of counter guarantee in other listed companies' announcements or circulars published on the website of the Stock Exchange from 1 January 2019 to 31 January 2020. We are of the view that our review period of thirteen months has provided us with the general market information on counter guarantee arrangement for our assessment. As shown in the relevant announcements or circulars, we find that there were similar counter guarantee arrangements entered into for the debt financing activities of those listed companies with their related parties. Details of these counter guarantee arrangements are summarised as follows:

Date of announcement/circular	Company (Stock Code)	Guarantor	Guarantee	Description	Guaranteed amount under the counter guarantee arrangement
24 December 2019	CCREL (832)	Henan Hongdao Business Information Consultancy Co., Ltd ("Henan Hongdao"), a company established in the PRC with limited liability and indirectly wholly-owned by Mr. Wu (the chairman, an executive director and a controlling shareholder of CCREL).	CCREL	A bank provided a loan of RMB500 million to Henan Hongdao. CCREL provided a corporate guarantee in favour of the bank to Henan Hongdao in relation to the loan. Henan Hongdao provided counter guarantee in favour of CCREL	All the relevant obligations and responsibilities of CCREL under the corporate guarantee
5 December 2019	China Tianrui Group Cement Company Limited (1252) ("China Tianrui")	Mr. Li (the chairman and a controlling shareholder of China Tianrui and its subsidiary) and Tianrui Group Company Limited ("Tianrui Group"), a company established in PRC with limited liability held by Mr. Li and his spouse.	China Tianrui	China Tianrui provided the guarantee to Tianrui Group for bank loans to be borrowed and/or debentures or corporate bonds to be issued by any of them. Tianrui Group and Mr. Li provided the counter guarantee in favour of China Tianrui in connection with the guarantee.	Any amount that becomes payable by China Tianrui or its subsidiaries in relation to the underlying guarantee
19 September 2019	Sinopec Oilfield Service Corporation (1033) ("SOSC")	SOSC	China Petrochemical Corporation ("CPC"), the controlling shareholder of SOSC	SOSC was granted a comprehensive credit line of no more than RMB500 million and CPC undertook joint guarantee liability for the SOSC's above-mentioned financing credit line. SOSC provided corresponding counter-guarantee to CPC.	The amount of the joint guarantee liability assumed by CPC

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Date of announcement/ circular	Company (Stock Code)	Guarantor	Guarantee	Description	Guaranteed amount under the counter guarantee arrangement
9 July 2019	AviChina Industry & Technology Company Limited (2357) (“AviChina”)	AVIC Renewable Energy Investment Co., Ltd. (“AVICRE”), a non-wholly owned subsidiary of the AviChina	AVIC Heavy Machinery Company Limited (“AVICHM”), a subsidiary of the controlling shareholder of the AviChina	A bank provided a loan of RMB62.37 million to Jinzhou (Baotou) Renewable Energy Co., Ltd (“Jinzhou”), a subsidiary of AVICRE. AVICHM provided guarantee to Jinzhou in relation to the loan. AVICRE provided the counter guarantee in favour of AVICHM.	The amount guaranteed by AVICHM in relation to the bank loan
26 April 2019	Guodian Technology & Environment Group Corporation Limited (1296) (“Guodian”)	Beijing Guodian Longyuan Environmental Engineering Co., Ltd. (“Longyuan”), a wholly-owned subsidiary of Guodian	GD Power Development Co., Ltd. (“GD Power”), holds approximately 39.19% of the issued shares of Guodian	Guodian proposed to publicly issue corporate bonds in the PRC with a total amount of not exceeding RMB1.2 billion, and issue private placement note in the PRC with a total amount of not exceeding RMB1 billion. China Energy Investment Corporation Limited (“China Energy”), being a controlling shareholder of Guodian and GD Power, provided full guarantee to the corporate bonds and private placement note. GD Power provided a counter guarantee by the same proportion to China Energy based on its shareholding ratio of 39.19% in Guodian. Longyuan provided a counter guarantee in favour of GD Power.	Same amount of the counter guarantee provided by GD Power to China Energy

In assessing the fairness and reasonableness of the arrangement of the Counter Guarantee Agreement, we have identified connected transactions involving the provision of counter guarantee between other listed companies and their respective connected person and we have compared the obligations under respective arrangements against the Counter Guarantee Service Agreement. We note that counter guarantee service arrangement between other listed companies and their respective connected person is not uncommon. In particular, we have identified similar counter guarantee arrangements provided by other listed companies for a guarantee provided by an entity covering the same or related subject. While certain counter guarantee arrangements of the comparables above are

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in the opposite direction to that of the Counter Guarantee, the obligations under these counter guarantee arrangements, similar to the Counter Guarantee, were all determined based on the obligations under the underlying guarantees (including the corresponding guaranteed amount).

Pursuant to the Guarantee Service Agreement, CECEP will provide the Guarantee under which CECEP unconditionally and irrevocably guarantees the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by HYY to the Bank. Pursuant to the Counter Guarantee Agreement, HYY guarantees that in the event that HYY fails to perform its obligations under the Facility and as a result of which CECEP has to perform such obligations as required under the Guarantee, HYY shall pay CECEP all the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank. Therefore, HYY's obligations under the Counter Guarantee are similar to those under the Facility, and the granting of the Counter Guarantee will not impose further liability on the Group beyond its obligations under the Facility.

We note that the term of the Counter Guarantee shall expire the earlier of (i) two years after CECEP (on behalf of HYY) fulfills all repayment obligations under the Facility Agreement; or (ii) on the date whereupon CECEP's obligations under the Guarantee are fully discharged. As advised by the Management, the term of the Counter Guarantee shall last longer than that of the Facility Agreement to allow time for both CECEP and HYY to execute the repayment arrangement through disposal and/or transfer of the Additional Pledge should HYY fail to perform its repayment obligations under the Counter Guarantee.

(ii) Pledge

As advised by the Management, HYY will provide the Additional Pledge in favour of CECEP for the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank as part of the Counter Guarantee. We have discussed with the Management the basis of selecting the Additional Pledge and the Management's estimation on the fair value of the Additional Pledge. As advised by the Management, the Additional Pledge was agreed between HYY and CECEP after arm's length negotiations and was determined with reference to, among other things, (i) the liquidity of the Additional Pledge; and (ii) the fair value of the Additional Pledge estimated by the Management. The estimated fair value of the Additional Pledge provided by the Management are as follows:

Additional Pledge	Estimated fair value (RMB million)	Remarks
(i) Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恆有源海外定向資產管理計劃)	52.41	<i>Note 1</i>
(ii) 4.9997% equity interest in Beijing Life Insurance Co., Ltd.	158.22	<i>Note 2</i>
(iii) 100% equity interests in Hangzhou Goodway	132.00	<i>Note 3</i>
(iv) 100% equity interests in HRF	342.80	<i>Note 3</i>
Total:	<u><u>685.43</u></u>	

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Note:

1. As advised by the Management, HYY's right of the economic interests (i.e. the principal amount and future interest) in Ever Source Overseas-Oriented Asset Management Plan has been pledged in favour of CECEP. We have reviewed the latest annual report and recent quarterly reports of the fund.
2. We have discussed the estimated fair value of the respective equity interest with the Management and we have also reviewed the annual financial information of Beijing Life Insurance Co., Ltd. publicly available.
3. We have discussed the estimated fair value of the respective equity interest with the Management. We have also reviewed the latest management accounts of Hangzhou Goodway and HRF and we are given to understand that the main assets of both Hangzhou Goodway and HRF are properties (the "Properties"). As advised by the Management, the Company has conducted valuation on the Properties and we have reviewed the valuation report by Peak Vision Appraisals Limited dated 13 August 2019. We have also reviewed the methodology and assumptions for the valuation.

In assessing the fairness and reasonableness of the terms and arrangement of the Additional Pledge, to the best of our knowledge, we have identified an exhaustive list of transactions involving the provision of certain security under debt financing arrangement by other listed companies disclosed in their relevant announcements or circulars published on the website of the Stock Exchange from 1 January 2019 to 31 January 2020. We are of the view that our review period of thirteen months has provided us with the market information on provision of security under debt financing arrangement of other listed companies for our assessment. As shown in their relevant announcements or circulars, we note that there were similar arrangements with security entered into for the debt financing activities of those listed companies with their related parties. Details of these security arrangements are summarised as follows:

Date of announcement / circular	Company name (stock code)	Details of the relevant security	Loan-to-value ratio (times)
30 December 2019	Yida China Holdings Limited (3639)	A property and land use rights of three plots of land located in PRC owned by the wholly-owned subsidiaries of the borrower	0.72
29 November 2019	Yanchang Petroleum International Limited (346)	Debenture of principal sum of US\$70 million (equivalent to approximately HK\$549.0 million) with 3 charges in relation to the land and properties held by the borrower	0.5

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Date of announcement / circular	Company name (stock code)	Details of the relevant security	Loan-to-value ratio (times)
28 August 2019	Enviro Energy International Holdings Limited (1102)	Deposit of (1) not less than HK\$44 million cash; or (2) shares of the borrower registered in the name of the controlling shareholder of the borrower or any security with market value not less than HK\$44 million provided by the controlling shareholder of the borrower	0.23
21 June 2019	BII Railway Transportation Technology Holdings Company Limited (1522)	a charge of all beneficially owned rights to and interests in the entire share capital of a wholly owned subsidiary of the borrower	0.94
10 May 2019	Weiye Holdings Limited (1570)	(1) a pledge of 51% equity interest in a subsidiary of borrower; (2) a charge over the land use right of two pieces of project lands owned by a subsidiary of borrower; and (3) the guarantees given by the borrower and its subsidiaries and key personnel	1.14
31 January 2019	Sunshine 100 China Holdings Ltd (2608)	3 share charges of interests in three subsidiaries of the borrower	1.03
	Maximum		1.14
	Minimum		0.23
	Median		0.83
	Average		0.76
	HYY		0.58

As shown in the table above, the loan-to-value ratios of the secured comparable loans range from 0.23 time to 1.14 times, with a median of approximately 0.83 times and an average of approximately 0.76 time. The loan-to-value ratio of the Additional Pledge of 0.58 time is within the range of the loan-to-value ratios of the secured comparable loans.

We have also discussed with the Management relating to HYY's obligation under the Counter Guarantee should HYY fail to repay the Facility. As advised by the Management, in the event that HYY fails to fulfil its obligation to repay the Facility, an event of default will be triggered and

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CECEP will be liable to repay the outstanding amount of the Facility on behalf of HYY. At the same time, a cross default will be triggered pursuant to the Counter Guarantee Agreement and HYY will be liable to pay CECEP all the principal amount of the Facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank.

(iii) Our view

Based on the foregoing, in particular, (i) it is not an uncommon market practice for requiring the borrowers to provide collateral or guarantee as security for the loans; (ii) the loan-to-value ratio of the Counter Guarantee of 0.58 time is within the range of those secured comparable loans of other listed companies; (iii) the potential liability of HYY under the Counter Guarantee and the Additional Pledge only covers the full extent of the obligations of the underlying Guarantee; and (iv) the value of the pledge under the Counter Guarantee is comparable to the maximum potential obligations of CECEP under the Guarantee, we are of the view that the terms of the Counter Guarantee and the Additional Pledge are on normal commercial terms, and fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we concur with the Directors' view that the Transactions are (i) in the interest of the Company and Shareholders as a whole; and (ii) on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Board Committee advise the Independent Shareholders to vote in favour of the relevant resolution(s) regarding the Transactions to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Asian Capital Limited
Joseph Lam
Executive Director

Mr. Joseph Lam is a responsible officer registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for Asian Capital Limited and has over 10 years of experience in corporate finance industry.

(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	Interests in the Shares				
Mr. Xu Shengheng (Note 1)	Beneficial owner	711,646,600 (L)	15.72%	37,725,148 (L)	750,354,548 (L)	16.58%	
	Interest of spouse	982,800 (L)	0.02%	-			
Ms. Chan Wai Kay Katherine (Note 2)	Beneficial owner	58,290,400 (L)	1.29%	43,788,119 (L)	116,182,119 (L)	2.57%	
	Interest of spouse	14,103,600 (L)	0.31%	-			
Mr. Wang Manquan (Note 3)	Beneficial owner	716,800 (L)	0.02%	30,314,851 (L)	31,031,651 (L)	0.69%	
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 Michael Zhiyu (Note 6)	Interest of spouse	250,000,000 (L)	5.52%	-	250,000,000 (L)	5.52%	
Ms. Liu Ening (Note 6)	Beneficial owner	250,000,000 (L)	5.52%	-	250,000,000 (L)	5.52%	
Mr. Zhang Yiyi (Note 7)	Interest of Controlled corporation	250,000,000 (L)	5.52%	-	250,000,000 (L)	5.52%	

(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 in 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 Michael 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.
7. Universal Zone Limited, which is wholly owned by Mr. Zhang Yiyang, holds 250,000,000 Shares. Therefore, under the SFO, Mr. Zhang is deemed to be interested in 250,000,000 Shares.

(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 December 2016	0.379	1,871,285
	8 September 2020	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, 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		Approximate percentage of interests in the Shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares					
CECEP (HK) (Note1)	Beneficial owner	1,190,000,000 (L)		26.29%	-	1,190,000,000 (L)	26.29%
CECEP (Note1)	Interest of controlled corporation	1,190,000,000 (L)		26.29%	-	1,190,000,000 (L)	26.29%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	982,800 (L)		0.02%	-		
	Interest of spouse	711,646,600 (L)		15.72%	37,725,148 (L)	750,354,548 (L)	16.58%
Ms. Liu Ening	Beneficial owner	250,000,000 (L)		5.52%	-	250,000,000 (L)	5.52%
Universal Zone Limited	Beneficial owner	250,000,000 (L)		5.52%	-	250,000,000 (L)	5.52%

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

Notes:

- CECEP (HK) is a wholly-owned subsidiary of CECEP. Therefore, under the SFO, CECEP is deemed to be interested in 1,190,000,000 Shares in which CECEP (HK) is interested.
- 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 the 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 disclosed in the announcement dated 5 August 2019, there was a significant loss for the six months ended 30 June 2019 (“**6-Months Period**”) as compared to a profit for the last corresponding period in 2018 due to the decreases in revenue and gross profit for the 6-Months Period which were mainly attributable to (i) some of the Company’s pursued projects were not signed as anticipated; and (ii) the investment in the low-margin demonstration projects for the development of new markets in Hebei and Shanxi has greatly affected the overall gross profit.

As disclosed in the announcement dated 4 November 2019, there was a loss for the nine months ended 30 September 2019 (“**9-Months Period**”) as compared to a profit for the last corresponding period in 2018 due to the decrease in revenue for the 9-Months Period which was mainly attributable to some of the Company’s projects were not signed as anticipated.

As disclosed in the announcement dated 20 February 2020, the Group expected that the net loss for the year ended 31 December 2019 (“**Year**”) will be increased by not more than approximately 15% as compared to the net loss for the corresponding period in 2018. The increase in net loss was mainly attributable to the expected increase in the amount of impairment on goodwill for the Year.

Save as disclosed above, 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
Asian Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Asian 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, Asian 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.

Asian 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 Asian Capital is given 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.
- (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 Guarantee Service Agreement;
- (b) the Counter Guarantee Agreement;
- (c) the letter from the Board, the text of which is set out in this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from Asian Capital, the text of which is set out in this circular; and
- (f) the consent letter of Asian 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 Friday, 13 March 2020 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 resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the guarantee service agreement (the “**Guarantee Service Agreement**”) dated 16 December 2019 entered into between Ever Source Science and Technology Development Group Co., Ltd.* (恆有源科技發展集團有限公司) (“**HYY**”) (an indirect wholly-owned subsidiary of the Company) and China Energy Conservation and Environmental Protection Group* (中國節能環保集團有限公司) (“**CECEP**”) pursuant to which the CECEP has conditionally agreed to provide the Guarantee Service (as more particularly described below) to HYY and HYY has agreed to pay the Guarantee Fee (as more particularly described below) to CECEP:–

Guarantee Service : the provision of a guarantee (“**Guarantee**”) in favour of China Construction Bank Corporation (the “**Bank**”) to secure repayment obligations of HYY under a proposed facility in the principal amount of RMB400,000,000 at an interest rate not exceeding 5% per annum and for a term of not less than 1 year (the “**Proposed Facility**”)

Guarantee Fee : 1% per annum on any outstanding amount of the Proposed Facility

- (b) the counter guarantee agreement (the “**Counter Guarantee Agreement**”) dated 16 December 2019 entered into between HYY (as counter-guarantor) and CECEP (as guarantor) pursuant to which HYY has conditionally agreed to grant counter guarantee to CECEP for the principal amount of the Proposed Facility together with interests penalty and other related fees and expenses which may be payable by CECEP under the Guarantee to the Bank, as follows:–

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- Joint liability guarantee : HYY shall provide guarantee to CECEP by way of joint liability guarantee for payment by CECEP under the Guarantee to the Bank.
- Additional pledge and counter guarantee (the “**Additional Pledge**”) :
- (1) HYY shall enter into a pledge counter guarantee agreement in favour of CECEP in respect of HYY’s interest in China Asset Management – Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恆有源海外定向資產管理計劃);
 - (2) HYY shall procure Ever Source Investment Management Company Limited* (恆有源投資管理有限公司) (an indirect wholly-owned subsidiary of the Company) to enter into a pledge counter guarantee agreement in favour of CECEP in respect of its 4.9997% equity interest in Beijing Life Insurance Co., Ltd.;
 - (3) HYY shall procure shareholder(s) of Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威(杭州)生物科技有限公司) (“**Hangzhou Goodway**”) (an indirect wholly-owned subsidiary of the Company) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in Hangzhou Goodway; and (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of Hangzhou Goodway (as particularised in the Counter Guarantee Agreement); and
 - (4) HYY shall procure shareholder(s) of Heng Run Feng Reality (Dalian) Company Ltd.* (恆潤豐置業(大連)有限公司) (an indirect wholly-owned subsidiary of the Company) (“**HRF**”) to (i) enter into pledge counter guarantee agreement(s) in favour of CECEP in respect of their respective equity interests in HRF; and (ii) undertake not to lease, dispose of or mortgage any of the lands and buildings of HRF (as particularised in the Counter Guarantee Agreement).

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Undertakings : HYY undertakes and agrees throughout the continuance of the Counter Guarantee Agreement that it and its subsidiaries will not, save with CECEP's prior written consent, (i) provide any form of guarantee to any third parties by further pledging any of the assets, properties and equity interests under the Additional Pledge; (ii) provide any credit guarantee; or (iii) lease or attempt to lease any of the lands and buildings of Hangzhou Goodway and HRF (as particularised in the Counter Guarantee Agreement).

Term : The term of the Counter Guarantee shall expire

- (i) two (2) years after CECEP, on behalf of HYY, fulfills all repayment obligations under the Facility Agreement; or
- (ii) in the event that CECEP has not fulfilled all repayment obligations under the Facility Agreement on behalf of HYY, on the date whereupon CECEP's obligations under the Guarantee are fully discharged for whatever reasons, whichever is earlier.

which shall take effect 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), 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."

2. **"THAT:**

subject to and conditional upon, among others, the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited the listing of, and permission to deal in, the Consolidated Shares (as defined below) upon the Share Consolidation (as defined below) becoming effective:

- (a) with effect from the second business day immediately following the date on which this resolution is passed or the fulfilment of the conditions set out in the section headed "Conditions of the Share Consolidation" in the circular dated 21 February 2020

NOTICE OF EXTRAORDINARY GENERAL MEETING

(whichever is later), every ten (10) issued and unissued ordinary shares of a par value of US\$0.01 each in the share capital of the Company be consolidated into one (1) consolidated share of a par value of US\$0.10 each (each a “Consolidated Share”) (the “**Share Consolidation**”), such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the memorandum of association and bye-laws of the Company;

- (b) all fractional Consolidated Shares will be disregarded and not issued to the shareholders of the Company but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit for the Company in such manner on such terms as the directors of the Company (the “**Director(s)**”) may think fit; and
- (c) any Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, including under common seal of the Company or otherwise as may be considered necessary, desirable or expedient to carry out or give effect to any or all of the foregoing arrangements in respect of the Share Consolidation.”

Yours faithfully,

By order of the Board of

China Geothermal Industry Development Group Limited

Xu Shengheng

Joint Chairman & Executive Director

Hong Kong, 21 February 2020

* *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, Mr. Zhang Yiying and Mr. Wang Michael Zhiyu (Ms. Liu Ening being his alternate Director) 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, Wanchai, 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.

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4. The register of members of the Company will be closed from Monday, 9 March 2020 to Friday, 13 March 2020 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, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 6 March 2020.