THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Geothermal Industry Development Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF APPROXIMATELY 4.99965% OF EQUITY INTERESTS IN BEIJING LIFE INSURANCE CO., LTD. AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an Extraordinary General Meeting of China Geothermal Industry Development Group Limited to be held at 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong on Friday, 19 February 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the Extraordinary General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof should you so wish.

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

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

To safeguard the health and safety of Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the Extraordinary General Meeting of the Company:

(1) Compulsory body temperature checks and health declarations

(2) Wearing of surgical face mask

(3) No distribution of corporate gift or refreshment

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company reminds shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

26 January 2021

* *for identification purpose only*

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

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

"Agreements"	the Equity Transfer Agreement and the Supplemental Equity Transfer Agreement
"Assignment Right"	the right of the Purchaser to assign any third party as the transferee of the Sales Shares
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Beijing Rungu" or "Purchaser"	Beijing Rungu Investment Co., Ltd. (北京潤古投資有限公司), a company incorporated in the PRC with limited liability
"Board"	the board of Directors
"CASBE"	China Accounting Standards for Business Enterprises
"CBIRC"	China Banking and Insurance Regulatory Commission
"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 wholly-owned by CECEP
"Company"	China Geothermal Industry Development Group Limited, Shares of which are listed on the GEM
"connected persons"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	the total consideration of RMB237,000,000 (equivalent to approximately HK$277,290,000) for the Disposal pursuant to the Equity Transfer Agreement
"Deposit"	a refundable deposit in the amount of RMB100,000 (equivalent to approximately HK$117,000)
"Directors"	directors of the Company
"Disposal"	the disposal of 4.99965% equity interest of the Target Company

"Equity Transfer Agreement"	the equity transfer agreement (as supplemented by the Supplemental Equity Transfer Agreement) dated 13 November 2020 entered into between the Vendor and the Purchaser for the Disposal
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held at 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong on 19 February 2021 at 11:00 a.m.
"First Instalment"	a total amount of RMB200,000,000 (equivalent to approximately HK$234,000,000), being part of the consideration
"GEM"	the GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM as amended, supplemented or otherwise modified from time to time
"Group"	the Company and its subsidiaries
"HK$" and "HK cent(s)"	Hong Kong dollars and cent(s) respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HYY"	Ever Source Science and Technology Development Group Ltd.* (恒有源科技發展集團有限公司), an indirect wholly owned subsidiary of the Company
"Ever Source Investment"	Ever Source Investment Management Co., Ltd.* (恒有源投資管理有限公司), an indirect wholly owned subsidiary of the Company
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its subsidiaries and its connected persons
"Latest Practicable Date"	21 January 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"PRC"	the People's Republic of China, which for the purpose of this circular only, excludes Hong Kong, Taiwan and the Macau Special Administrative Region
"RMB"	Renminbi, the lawful currency of the PRC

"Sales Shares"	4.99965% equity interests in the Target Company, namely the registered capital of the Target Company of RMB142,990,000 (equivalent to approximately HK$167,298,000) with the capital contribution of RMB1 per share
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Gangze" or "Transferee"	Shanghai Gangze Trading Company Limited* (上海港澤貿易有限公司), a company incorporated in the PRC with limited liability
"Shares"	ordinary share(s) of US$0.01 each in the share capital of the Company
"Shareholders"	shareholders of the Company
"Share Option Scheme"	the share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 28 July 2010
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the GEM Listing Rules
"Supplemental Equity Transfer Agreement"	the supplemental agreement to the Equity Transfer Agreement dated 23 December 2020 entered into between the Vendor, the Purchaser and Shanghai Gangze, as Transferee, for the Disposal
"Target Company"	Beijing Life Insurance Co., Ltd., a company incorporated in the PRC with limited liability
"US$" or "US dollars"	United States dollars, the lawful currency of the United States of America
"%"	percent

Conversion of RMB into HK$ in this circular is based on the exchange rate of RMB1=HK$1.17. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at suchor any other rates or at all.

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
Ms. Hao Xia
Mr. Daiqi

Non-executive Directors:
Mr. Yang Wei
Mr. Wang Michael Zhiyu *(Ms. Liu Ening being his alternate Director)*
Mr. Zhang Yiying

Independent non-executive Directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Wu Qiang
Mr. Guo Qingui
Mr. Guan Chenghua

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

Head office and principal place of business in Hong Kong:
8/F., Chung Hing Commercial Building,
62-63 Connaught Road Central,
Central, Hong Kong

26 January 2021

To the Shareholders, and for information only, the holders of the share options

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF APPROXIMATELY 4.99965% OF EQUITY INTERESTS IN BEIJING LIFE INSURANCE CO., LTD.

INTRODUCTION

References are made to the announcements of the Company dated 13 November 2020, 19 November 2020 and 23 December 2020. The purpose of this circular, among other matters, is to provide you with the relevant information regarding the Disposal and to give you the notice of EGM.

THE DISPOSAL

On 13 November 2020 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Sales Shares, representing approximately 4.99965% of equity interests in the Target Company at the Consideration of RMB237,000,000 (equivalent to approximately HK$277,290,000) subject to the terms of the Equity Transfer Agreement. Subsequently, on 23 December 2020 (after trading hours), the Vendor, the Purchaser entered into the Supplemental Equity Transfer Agreement with the Transferee, pursuant to which, among other matters, the Transferee has undertaken to be fully responsible for all the obligation and liabilities that are applicable to the transferee stipulated under the Equity Transfer Agreement.

THE AGREEMENTS

The principal terms of the Equity Transfer Agreement are set out below:

Date:	13 November 2020
Parties:	(1) Ever Source Investment, as the vendor; and (2) Beijing Rungu, as the purchaser.

The ultimate beneficial owners of the Purchaser are Ning Hanzhao* (寧涵昭) and Ning Siqiao* (寧思喬). As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties with no formal or informal relation, arrangement, understanding and/or undertaking with the Company and its connected persons save for the Agreements.

Pursuant to the Equity Transfer Agreement, the Vendor has agreed to transfer the Sales Shares to the Purchaser or any third party assigned by the Purchaser at the Consideration, and the Purchaser has agreed to acquire the Sales Shares in the name of the Purchaser or any third party assigned by the Purchaser at the Consideration. Both parties have agreed that the Purchaser has the Assignment Right, provided that a written notice shall be given to the Vendor within 20 days after the date of signing the Equity Transfer Agreement and before the payment of the First Instalment. If the Assignment Right were to be exercised, the parties shall enter into a supplemental agreement to confirm that the third party assigned by the Purchaser shall be the Transferee of the Sales Shares. The Purchaser is legally entitled to exercise the Assignment Right under the relevant law of the PRC.

On 30 November 2020, the Vendor has received a written notice by the Purchaser to exercise the Assignment Right and to appoint Shanghai Gangze as the Transferee. On 23 December 2020, the Vendor, the Purchaser and the Transferee entered the Supplemental Equity Agreement accordingly.

The principal terms of the Supplemental Equity Transfer Agreement are set out below:

Date:	23 December 2020

Parties:

(1) Ever Source Investment, as the vendor;
(2) Beijing Rungu, as the purchaser; and
(3) Shanghai Gangze, as the transferee.

The ultimate beneficial owners of the Transferee are Lin Bi'e* (林碧娥) and Zhang Jiming* (張紀明). As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Transferee and its ultimate beneficial owner(s) are (i) Independent Third Parties with no formal or informal relation, arrangement, understanding and/or undertaking with the Company and its connected persons save for the Supplemental Equity Transfer Agreement; and (ii) not connected persons to the Purchaser and its ultimate beneficial owners within the meanings of the GEM Listing Rules.

Assets to be disposed of

The Vendor holds 4.99965% equity interests in the Target Company, namely the registered capital of the Target Company of RMB142,990,000 (equivalent to approximately HK$167,298,000), and the total number of shares is 142,990,000 with par value of RMB1 each. Upon completion of the Disposal, the Group shall cease to have any interest in the Target Company.

Conditions precedent

Both parties agreed that it is a condition precedent for the Equity Transfer Agreement becoming effective that the Equity Transfer Agreement has been approved at the EGM in accordance with the GEM Listing Rules. Such condition precedent is not waivable and it has not been fulfilled as at the Latest Practicable Date.

Unless affected by the approval from regulatory authorities and other force majeure factors, the parties have agreed that the EGM shall be convened on 30 December 2020 for the purpose of considering and approving the Equity Transfer Agreement. If the general meeting failed to be convened as scheduled due to the reasons of the Purchaser or the transferee, the Purchaser or the transferee shall pay the Vendor the remaining balance of the Consideration of RMB37,000,000 (equivalent to approximately HK$43,290,000) on 30 December 2020.

The EGM, which was originally expected to be convened on 30 December 2020, cannot be convened as scheduled due to the reasons that, among others, the Company required additional time (i) to prepare the required information under the GEM Listing Rules to be disclosed in this circular, in particular, to prepare the inclusion of the financial information of the Target Company; and (ii) to apply for a waiver from strict compliance with the Rule 19.68(2)(a)(i) of the GEM Listing Rules. Given that the delay in publishing this circular and convening the general meeting were due to reasons attributable by the Company, no punitive liquidated damages were charged/to be charged to the Purchaser or the Company.

Accordingly, the Equity Transfer Agreement will continue to become effective immediately after having been approved at the EGM and the remaining balance of the Consideration of RMB37,000,000 (equivalent to approximately HK$43,290,000) will be settled by the Transferee payable to the Vendor within 10 days after the shareholders of the Sales Shares have been changed to the Transferee and the completion of the filing procedures regarding the articles of association of the Target Company.

Consideration and terms of payment

The Consideration for the Disposal is RMB237,000,000 (equivalent to approximately HK$277,290,000), which will be paid in cash in the following manner:

(1) The Deposit of RMB100,000 (equivalent to approximately HK$117,000) shall be paid by the Purchaser within 3 days after signing the Equity Transfer Agreement. If the Purchaser exercises the Assignment Right, the Vendor shall return the Deposit to the Purchaser upon receiving the First Instalment from the third party assigned by the Purchaser.

(2) The First Instalment of RMB200 million (equivalent to approximately HK$234 million) shall be paid by the Purchaser/transferee within 20 days after signing the Equity Transfer Agreement.

(3) The Vendor shall complete the registration procedures regarding the release of the pledge of the Sales Shares within 15 days after receiving the First Instalment from the transferee.

(4) The Vendor undertakes that it will jointly complete the procedures for change of shareholders of the Sales Shares and the industrial and commercial filing procedures regarding the articles of association of the Target Company with the transferee within 30 days from the date on which the Equity Transfer Agreement becomes effective and the pledge of the Sales Shares is released.

(5) Unless the general meeting failed to be convened on 30 December 2020 for reasons attributable by the Purchaser or the transferee, in which case the Purchaser or the transferee shall pay RMB37,000,000 (equivalent to approximately HK$43,290,000) to the Vendor on 30 December 2020, otherwise the Purchaser or the transferee shall pay the remaining balance of the Consideration of RMB37,000,000 (equivalent to approximately HK$43,290,000) to the Vendor within 10 days after the shareholders of the Sales Shares have been changed to the transferee and the completion of the filing procedures regarding the articles of association of the Target Company.

Since the Purchaser has exercised the Assignment Right stipulated under the Equity Transfer Agreement, the Vendor has returned the Deposit that was received on 16 November 2020 to the Purchaser on 8 December 2020 upon receiving the First Instalment from the Transferee on 3 December 2020. Accordingly, (1) to (3) of the abovementioned have been completed as at the Latest Practicable Date.

The pledge of the Sales Shares has been released on 17 December 2020 and there were no additional pledge assets provided by the Company. The procedures for change of shareholders of the Sales Shares and the industrial and commercial filing procedures regarding the articles of association of the Target Company will be completed within 30 days from the effective of the Equity Transfer Agreement, being the date of the EGM.

The remaining balance of the Consideration of RMB37,000,000 (equivalent to approximately HK$43,290,000) will be settled by the Transferee payable to the Vendor within 10 days after the shareholders of the Sales Shares have been changed to the Transferee and the completion of the filing procedures regarding the articles of association of the Target Company.

Basis of determining the consideration

The Consideration was determined after arm's length negotiations between the parties with reference to, among others, (i) the Sales Shares' investment cost of RMB142,990,000 (equivalent to approximately HK$167,298,000) in 2017; (ii) the carrying amount of the Sales Shares of approximately HK$179,732,000 as set out in the audited financial statements of the Company as at 31 December 2019 (as at 30 June 2020, the carrying amount of the Sales Shares amounted to approximately HK$179,263,000, the Sales Shares is accounted for as an equity investment designated at fair value through other comprehensive income.); (iii) limited supply in the public market, in particular to private investors, given the high entry barriers for establishing and/or holding companies in the insurance industry (i.e. subject to obtaining the required approval by the respective regulators); and (iv) the potential for the gradual improvement of financial performance of a newly incorporated insurance company.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, there has been no substantial changes or corporate events of the Target Company since the date of the Equity Transfer Agreement. Accordingly, no adjustment has been made on the Consideration.

Other major terms

The Purchaser guarantees that the transferee shall be eligible to become the qualified shareholder of the Target Company. If the change of shareholders of the Target Company and the filing procedures with the industrial and commercial registration authority cannot be completed or is delayed for reasons related thereto, the rights of the Vendor in the transfer of Sales Shares shall not be affected and the Purchaser shall still be required to pay the corresponding Consideration to the Vendor in full and in time based on the transaction principles stipulated in the Equity Transfer Agreement.

Both parties have agreed that taxes incurred by transfer of Sales Shares shall be borne by the Vendor and the transferee respectively according to the laws. The Vendor and the Transferee will be subject to the stamp duty payable at a rate of 0.05% of the Consideration upon effective of the Equity Transfer Agreement. Save for the aforesaid stamp duty, there is no other taxes payable by the Transferee or the Purchaser in respect of the Disposal. The Vendor will be subject to an additional income tax in the maximum amount of RMB$23.5 million which shall be payable only after the Disposal having been completed. In the event that the Transferee failed to proceed with completion of the Disposal, the Purchaser would be obliged to complete the Disposal. Should both the Purchaser and the Transferee fail to proceed with completion of the Disposal, the Company will not have to pay the income tax and the Purchaser, or the Transferee, shall pay the Vendor 10% of the total Consideration as punitive liquidated damages.

Both parties have agreed that the transfer date of shareholders' rights shall be the date of change of industrial and commercial registration in relation to the transfer of Sales Shares. The shareholders' rights shall be exercisable and owned by the Vendor before the completion date of filing procedures regarding the articles of association of the Target Company and shall be exercisable and owned by the transferee upon the completion date of filing procedures regarding the articles of association of the Target Company.

Liability for breach of contract

Pursuant to the Equity Transfer Agreement, if the Vendor fails to release the pledge registration of the Sales Shares or complete the procedures for change of shareholders of the Sales Shares within the time limit specified in the Equity Transfer Agreement, both parties shall otherwise negotiate the transfer completion time of the Sales Shares. The Company confirmed that the pledge of the Sales Shares has been released in time and in full within the time limit specified in the Equity Transfer Agreement and there was no other pledge asset provided by the Company to replace the Sales Shares. Save where the conditions precedent fail to be fulfilled, if the Equity Transfer Agreement cannot be effected due to reasons attributable by the Vendor only, the Vendor shall pay the Purchaser or the transferee 10% of the total Consideration as punitive liquidated damages. For avoidance of doubt, the Equity Transfer Agreement will become effective immediately after all condition precedents under the Equity Transfer Agreement are satisfied, i.e. the convening of the EGM.

If the Purchaser or the transferee fails to pay the Consideration in time and in full within the time limit specified in the Equity Transfer Agreement, the Purchaser or the transferee shall pay the Vendor liquidated damages at the daily rate of 0.05% of the outstanding Consideration payable per each overdue day, provided that if the delay in payment by the Purchaser or the transferee is due to the Vendor's failure to perform its prior obligations, the Purchaser or the transferee's payment time shall be extended accordingly. However, if the Equity Transfer Agreement cannot be effected due to reasons attributable by the Purchaser or the transferee, including but not limited to the failure of the transferee to meet the eligibility for the shareholder of an insurance company, the Purchaser or the transferee shall pay the Vendor 10% of the total Consideration of the Sales Shares as punitive liquidated damages in addition to the above-mentioned liquidated damages.

Assignment Right

As set out in the Equity Transfer Agreement, when exercising Assignment Right, the Purchaser guarantees that the Transferee shall meet the necessary qualifications of shareholders of insurance companies under the requirements of laws and regulations and regulatory authorities, including but not limited to, (i) recording profit in the latest financial year; and (ii) having no record of significant breaches of laws or regulations in the PRC in the past three years, comply with the requirements regarding transfer of shares of the Target Company to non-existing shareholders set out in the articles of association of the Target Company and the transferee who is not a competitor of the Target Company can become a qualified shareholder of the Target Company. To the Directors' best knowledge, it is believed that the Transferee will meet the requirement for being the Shareholder of the Target Company.

Reasons for the Assignment Right

As advised by the Purchaser, the Transferee is a business acquaintance of the Purchaser and the exercise of the Assignment Right to the Transferee was mainly due to, including but not limited to, meeting the necessary qualifications under the requirement of laws and regulations and regulatory authorities and complying with the requirements in the PRC regarding transfer of shares of the Target Company. For instance, the Purchaser informed the Company that any funding from financing activities by the Purchaser may not be allowed for the purposes of purchasing equities of an insurance company under the rules/ guidelines of the CBIRC which interfered the initial intentions of the Purchaser on settling the Consideration by financing arrangement that eventually led to the Purchaser to exercise the Assignment Right to the Transferee.

The Purchaser has confirmed to the Company that (i) there was no arrangement whereby benefit was or will be given to the Purchaser as compensation and/or consideration in connection with the exercising of the Assignment Right; and (ii) the Transferee and its ultimate beneficial owners as well as its respective associates are also Independent Third parties (as defined in GEM Listing Rules). For the avoidance of doubt, the Purchaser will not further transfer to any other transferee(s) under the Supplemental Equity Transfer Agreement and any further transactions involving the disposing of the Sales Shares by the Group with any other transferee(s) will be considered as a new transaction and will have to comply with all the applicable GEM Listing Rules of the Stock Exchange.

Furthermore, being the original party entering into the Equity Transfer Agreement and as set out in the Supplemental Equity Transfer Agreement, the Purchaser has undertaken to be responsible for all the obligations and liabilities of the Transferee in the event that the Transferee had breached any of the terms and conditions set out in the Equity Transfer Agreement (the "**Purchaser's Undertaking**") to safeguard the interests of the Vendor and the Company in respect of the Disposal as a result of the Assignment Right. In the event that the Transferee cannot, for any reasons, complete the Disposal, the Purchaser will be obligated to proceed with the Disposal in respect of the Purchaser's Undertaking to acquire the Sales Shares unless the parties to the Equity Transfer Agreement decided to terminate the transaction pursuant to the terms of the Equity Transfer Agreement.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and its registered capital is RMB2,860,000,000 (equivalent to approximately HK$3,346,200,000). The total number of shares is 2,860,000,000 with par value of RMB1 each. The Target Company is mainly engaged in ordinary insurance including life insurance and annuity insurance; health insurance; accidental injury insurance; dividend insurance; universal insurance; the reinsurance business of the above mentioned businesses; fund application businesses as permitted by national laws and regulations and other businesses as approved by CBIRC.

Based on the audited financial statements of the Target Company, which were prepared under the China Accounting Standards for Business Enterprises and the requirement of CBIRC, the Target Company recorded (i) loss before and after taxation of approximately RMB52,434,000 (equivalent to approximately HK$61,348,000) and RMB52,275,000 (equivalent to approximately HK$61,162,000) respectively; and (ii) loss before and after taxation of approximately RMB113,797,000 (equivalent to approximately

HK$133,142,000) and RMB112,680,000 (equivalent to approximately HK$131,836,000) respectively for each year ended 31 December 2019 and 2018. As at 31 December 2019 and 2018, net assets of the Target Company amounted to approximately RMB2,698,870,000 (equivalent to approximately HK$3,157,678,000) and RMB2,750,670,000 (equivalent to approximately HK$3,218,284,000), respectively.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Based on the audited financial statements of the Group as at 31 December 2019, the carrying value of the Sales Shares was approximately HK$179,732,000. It is estimated that the Group will realise an unaudited gain from the Disposal of approximately HK$97,558,000 (before taxation and without deduction of expenses related to the Disposal). The unaudited gains are calculated by minus the carrying amount of the Sales Shares approximately HK$179,732,000 from HK$277,290,000 (conversion of the Consideration of RMB237,000,000 into HK$ at the exchange rate of 1.17). The net proceeds from the Disposal, after deduction of taxes in relation to the Disposal, in the amount of approximately RMB213,500,000 equivalent to approximately HK$249,795,000) will be used to repay the bank loan with the principal amount of RMB400 million of the Group.

The above financial effect is for illustrative purposes only. The final gain or loss arising from the Disposal to be recorded by the Company is subject to audit, which will be assessed upon completion.

Set out below are the summary of the debt level of the Group as at the Latest Practicable Date:

	Principal amount *(RMB' million)*	**Outstanding balance** *(RMB' million)*	**Maturity**	**Due date**	**Interest rate**
Loan A	400.0	60.0	1 year	17 June 2021	4% to 4.5%
Loan B	4.5	4.5	1 year	18 November 2021	5.5%
Loan C	5.5	5.5	1 year	11 April 2021	6%

The Company has partially settled the loan A as mentioned in the table above with (i) the First Instalment on 3 December 2021, and (ii) internal cash in the amount of RMB15 million on 4 January 2021, and intends to repay the outstanding balance with the remaining net proceeds from the Disposal and internal resources of the Company in order to release the pledged assets under the counter guarantee. The existing pledged assets includes (i) HYY's interest in China Asset Management – Ever Source Overseas-Oriented Asset Management Plan* (華夏基金－恒有源海外定向資產管理計劃) and (ii) the equity interests in 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). As the Sales Shares were originally one of the pledged assets under the counter-guarantee provided to CECEP, it was the condition for CECEP to release the Sales Shares that the net proceeds from the Disposal shall be used to repay the loan. In addition, the Company is of the view that the release of all pledged assets, after repayment of the loan A as mentioned in the table above, will provide the Company with more flexibility in dealing with the aforesaid assets, including but not limited to, possible disposals of the aforesaid assets when opportunity arises. The Company intends to settle loan B and loan C as mentioned in the table above through internal resources.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

As informed by the Purchaser that it noticed the Company as a shareholder of the Target Company from the internet and has then approached Mr. Xu Shengheng, the joint chairman of the Company in the first quarter of 2020 to express their initial interest in acquiring the Sales Shares. After several meetings and discussions involving the representatives of the Company (i.e. executive Director and senior management members) and the representatives of the Purchaser and having evaluated and considered, among other matters, (i) that the Purchaser was incorporated since February 2007 and the business it engages in; (ii) that the Purchaser and its ultimate beneficial owners have no litigation records based on company search conducted by the Company; (iii) the Purchaser's interest in the Sales Shares; (iv) the payment arrangement as proposed in the Equity Transfer Agreement considered as favorable to the Company; and (v) that the Equity Transfer Agreement is a legal-binding agreement, the Company reached the conclusion after arm's length negotiation to enter the Equity Transfer Agreement with the Purchaser in November 2020.

Based on the above and throughout the negotiations conducted by the Company and the Purchaser in respect of the terms of the Equity Transfer Agreement, the Company comes into belief, after conducting verification through, among others, company's searches, that the Purchaser is a long-established company with adequate financial resources to complete the Disposal as it has agreed to make the First Instalment, being the majority of the Consideration, to the Company before the completion of the Disposal as stipulated under a legal-binding agreement. The Target Company, being viewed as an investment of the Company, commercially speaking, will provide a relatively high return-on-investment upon completion of the Disposal. Moreover, the Company has discussed with the Purchaser on information regarding the Transferee, including but not limited to, enquiring whether the Transferee is eligible to become the shareholder of the Target Company along with the Transferee's principal businesses and ultimate beneficial owners etc. The Company also conducted a background check on the Transferee to ensure that the Transferee is not involved in any litigations in the recent years. Having acknowledged the general background/principal businesses of the Purchaser and the Transferee and factoring in the safeguard in the Purchaser's Undertaking, the Directors consider that there are no indications that the Transferee, or the Purchaser (if and when required), will not be able to settle the Consideration.

The Board considers that the Disposal is a good opportunity for the Group to realize its assets held and the net proceeds will be used to repay loans, which will help reduce overall debt level of the Group, thereby improving the overall financial conditions of the Group, the debt level of the Group includes bank loans in the total principal amount of RMB410.0 million.

Having considered (i) that the Company is an investor of the Target Company and has no control over the management to impact the decision making of the Target Company; (ii) the current debt level of the Group as illustrated in the above; and (iii) the attractive return of investment of the Disposal, the Directors (including the independent non-executive Directors) consider that:

(1) the terms and conditions of the Equity Transfer Agreement are on normal commercial terms that are fair and reasonable; and

(2) the Disposal is in the interest of the Company and the Shareholders as a whole.

INFORMATION ON THE COMPANY, THE PURCHASER AND THE TRANSFEREE

The Company

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.

Beijing Rungu

Beijing Rungu, a company incorporated in the PRC with limited liability in 2007 with paid up capital of RMB100 million, is mainly engaged in investment management; economic and trade consultation; sales of daily necessities, hardware and electrical appliances and building materials; organisation of cultural and artistic exchange activities (excluding shows); exhibition service; educational consultation; economic and trade consultation; business management consultation; health consultation, etc.

Ning Hanzhao* (寧涵昭), is an investor and has over 20 years of experience in technology promotion and application service industry. She is the chief executive officer of Beijing Rungu.

Ning Siqiao* (寧思喬), is an investor and has over 20 years of experience in business service industry. She is a supervisor of Beijing Rungu.

Shanghai Gangze

Shanghai Gangze, a company incorporated in the PRC with limited liability in 2016 with paid up capital of RMB110 million, is mainly engaged in sales of daily necessities, office supplies, household appliances, electronic products, computers, software and auxiliary equipment and building materials.

Lin Bi'e* (林碧娥), is an investor and has over 5 years of experience in real estate industry. She is an executive director and the legal representative of Shanghai Gangze.

Zhang Jiming* (張紀明), is an investor and has over 5 years of experience in wholesale industry. He is a supervisor of Shanghai Gangze.

WAIVERS FROM STRICT COMPLIANCE WITH RULE 19.68(2)(a)(i) OF THE GEM LISTING RULES

As set out in this Letter from the Board, the Disposal constitutes a very substantial disposal of the Company under Chapter 19 of the GEM Listing Rules. Therefore, it is required that financial information of either (a) the Target Company; or (b) the Group with the Target Company being shown separately, to be included in the circular in relation to the Disposal, where such financial information must be reviewed by the Company's auditors or reporting accountants according to the relevant accounting standards as specified under Rule 19.68(2)(a)(i) of the GEM Listing Rules (the "**Rules Requirements**").

According to Note 2 to Rule 19.68(2)(a)(i) of the GEM Listing Rules, it provides that the Stock Exchange may be prepared to relax the Rules Requirements if the assets of the Target Company are not consolidated in the accounts of the Group before the Disposal. In this connection, the Company has applied to the Stock Exchange for a waiver from strict compliance with the Rules Requirements on the following grounds:

(a) As at the date of this circular, the Group beneficially owns approximately 4.99965% equity interests in the Target Company. Accordingly, the Target Company was accounted for as an equity investment designated at fair value through other comprehensive income of the Company and its financial results have not been consolidated in the accounts of the Group nor accounted for under equity method by the Group before the Disposal. The fair value of this equity investment is calculated based on the valuation method and assumptions applied, the difference between the accounting policies adopted by the Target Company under the CASBE and the accounting policies adopted by the Company under the HKFRS may not have significant impact on the valuation of this equity investment.

(b) The Group does not have any board representation in the Target Company and has no controlling power nor significant power/influence over the Target Company's management. Following discussion between the Company and Ernst & Young, the auditor of the Company, regarding proposed procedure for complying with Rule 19.68(2) (the "**Review Work**"), the current available information to the Group would not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements") nor a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Company confirmed with Ernst & Young that it is not practicable and/or meaningful for them to perform such assessment to properly and/or accurately differentiate the material differences between the accounting standard/policies adopted by the Group and the Target Company without having the access to the underlying management accounts of the Target Company that were ultimately being used as the basis of the audited financial information published by the Target Company.

(c) The Target Company has denied the Group's requests (i) to provide relevant information to the satisfaction of Ernst & Young, the auditor of the Company, required for the proposed procedures for complying with the Rules Requirement; and (ii) to grant its consent for the Company to disclose any non-published financial information of the Target Company in this circular other than those that have already been published on its website.

(d) The financial information of the Target Company was prepared in accordance with CASBE and were audited with unqualified audit opinion issued after audit work conducted by the auditors of the Target Company. The financial information of the Target Company was required to be prepared and published under the relevant rules of the CBIRC.

(e) The Directors considers that more attention should be allocated on the financial effect of the Disposal on the Group and the benefits of and reasons for the Disposal that comes with the completion of the Disposal when considering his/her voting decisions as the Target Company's historical financial performances is not one of the key determining factors in deciding the Consideration.

(f) The Company will include in this circular, as alternative disclosure, the summary of financial information of the Target Company for the period from 14 February 2018 (Incorporation date) to 31 December 2018 and for the financial year ended 31 December 2019 with their respective auditor's opinions and hyperlinks that refer to the full disclosure of the financial statements of the Target Company.

(g) In light of the above, coupling with the proposed alternative disclosures, the Directors are in the view that this circular will contain all key information of the Disposal for the Shareholders to consider the Disposal.

The Stock Exchange has granted a waiver to the Company from strict compliance with the Rules Requirements in this circular, subject to the Company making disclosure of the waiver (including details and reasons) in this circular.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio(s) in respect of the Disposal under the Equity Transfer Agreement exceed 75%, the Disposal constitutes a very substantial disposal of the Company and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As the Sales Shares were originally one of the pledged assets under the counter-guarantee provided to CECEP, it was the condition for CECEP to release the Sales Shares that net proceeds from the Disposal shall be used to repay the loan. Accordingly, CECEP and its associates will abstain from voting at the EGM on the resolution approving the Disposal as required under Rule 2.26 of the GEM Listing Rules.

GENERAL

An extraordinary general meeting will be convened and held by the Company for the Shareholders to consider and, if thought fit, approve (among others) the Disposal.

CECEP and its associates will be required to abstain from voting at the EGM on the resolution approving the Disposal. Save as aforementioned, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no other Shareholders has a material interest in the Disposal, thus no other Shareholder is required to abstain from voting for the resolution to approve the Disposal at the extraordinary general meeting.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular, ordinary resolution will be proposed to approve the Disposal.

A proxy form 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, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of 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.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll.

RECOMMENDATION

The Directors considered that the approval of the Disposal at the EGM are in the best interest of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of
CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED
Xu Shengheng
Joint Chairman & Executive Director

(I) FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019 and the financial information for the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.cgsenergy.com.hk):

- annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (pages 40 to 130);
(https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329495.pdf)

- annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 42 to 158);
(https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329469.pdf)

- annual report of the Company for the year ended 31 December 2019 published on 31 March 2020 (pages 43 to 152); and
(https://www1.hkexnews.hk/listedco/listconews/gem/2020/0331/2020033103244.pdf)

- interim report of the Company for the six months ended 30 June 2020 published on 12 August 2020 (pages 7 to 45).
(https://www1.hkexnews.hk/listedco/listconews/gem/2020/0812/2020081200461.pdf)

(II) STATEMENT OF INDEBTEDNESS

Borrowings – Secured

As at 30 November 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had a secured and unguaranteed interest-bearing bank borrowings of approximately RMB10,000,000 which was secured by property. In addition, the Group had a secured and guaranteed interest-bearing bank borrowings of RMB275,000,000 of which guarantee was provided by CECEP and in turn our assets including certain investments and equity interests of an indirect wholly-owned subsidiary were pledged to CECEP as counter-guarantee.

Capital Commitments

As at 30 November 2020, the Group had capital commitments, which were contracted but not provided for, in respect of properties under development and investment in an associated company of approximately RMB9,710,000 and RMB4,000,000 respectively.

Pledged Assets

As at 30 November 2020, bank borrowings was secured by property with a carrying amount of approximately RMB7,619,000 and certain investments in equity interests, including the Sales Shares, with a total carrying amount of approximately RMB378,677,000.

Operating Lease Liabilities

As at 30 November 2020, the operating lease liabilities amounted to approximately HK$997,276.

Contingent Liabilities

As at 30 November 2020, the Group had no significant contingent liabilities arising in the ordinary course of business.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, at 30 November 2020, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

(III) WORKING CAPITAL

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

(IV) FINANCIAL AND TRADING PROSPECT OF THE GROUP

The development and exploitation of geothermal energy with its characteristics of stable and renewable, by scientific utilization can reduce greenhouse gas emissions, effectively control smogs and improve the ecological environment and people's quality of life. Therefore, China has clearly planned to focus on the promotion of geothermal energy, as the clean energy, for its future industrial development, and continuously increase the proportion of geothermal energy in the energy structure. In the past decade, the direct utilization of geothermal energy has increased at a rate of 10% per year, showing huge potential in the market. President Xi Jinping also clearly emphasized that northern clean heating in winters related to the public how they get through the cold winter with warmth, therefore, this is an industry that is related to people's livelihood. This indicates that our nation will firmly pursue the direction of low-carbon energy in development, and will create a better living environment for us with cleaner energy.

At the beginning of 2020, due to the outbreak of novel coronavirus pneumonia and the epidemic has severely affected the overall economic activities, the Company's employees could not return to work normally after the Spring Festival holidays, and all sales staff could not travel freely, this has directly made an impact on the business of the Company. Therefore, there have been impacts on the business in the first and second quarters. It is believed that 2020 will be a challenging year for enterprises. During the epidemic period, we have been on guard and prepared and initiated HYY 2020 quarterly "Double Assurance for the Epidemic". In the first quarter, we assure epidemic prevention and safety for the employees, and we assure operation of heating. In the second quarter, we assure epidemic prevention and safety for the employees, and we assure resumption of normal operation for businesses and vigorous development of alternative heating energy market. In the third quarter, we assure epidemic prevention and safety for the employees, and we assure operation of cooling in the summer and operation of businesses is normal. In the fourth quarter, we assure epidemic prevention and safety for the employees, and we assure completion of heating projects are on time to ensure normal operation of heating in the new heating season.

The Group will continue to adopt "safety first, standards as the core, lay a solid foundation, make all strategies practicable, do everything responsibly, work happily every day" as the code of conduct. In existing model of business divisions, professional companies and engineering center, we will continue to strengthen regional development and promotion with engineering center as the core to develop an integrated development model of construction, operation, and maintenance as a whole. Besides, system establishment and quantitative assessment measures shall be continuously enhanced to achieve goals and evaluations for every task through transparency to ensure fairness. Refined management around "full budget, assessment, and openness" shall continuously be carried out. Facing different regions, different objects and different needs, the Group will rely on the strategic cooperation of product production and agencies in different regions, and rely on partner channels and Internet channels to firmly develop the business divisions and the "three agents". Classified management based on the business divisions and type of agency to establish a targeted market expansion mechanism which is of high efficiency, flat management, unified internal and external standards so as to exploring a development path with characteristics of Chinese geothermal energy company.

(V) MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2017

Financial Review

For the year ended 31 December 2017, the profit for the year of the Group amounted to approximately HK$3,962,000 and revenue amounted to HK$778,153,000 as compared with the loss of the Group amounted to HK$31,629,000 and revenue amounted to approximately HK$619,053,000 for the year ended 31 December 2016.

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2017 and 2016.

Revenue	2017		2016	
	HK$000	%	*HK$000*	%
1. Shallow geothermal energy utilisation system				
Including: Planning and design	4,453	1	5,479	1
Geothermal energy collection	73,886	9	34,217	6
System engineering	648,608	83	339,249	54
Operation and maintenance management	13,523	2	49,468	8
2. Air conditioning heat pump	23,906	3	172,518	28
3. Properties investment and development	13,777	2	18,122	3
Total revenue	778,153	100	619,053	100

Operational Results

Total revenue from operations for the year ended 31 December 2017 was approximately HK$778,153,000 as compared with HK$619,053,000 for the year ended 31 December 2016. The revenue of the shallow geothermal energy utilisation system increased during the year due to the fact that the Group had put great efforts to promote renewable shallow geothermal energy heating, especially in northern China. The Group secured projects in Beijing, Hebei, Liaoning, Shanxi, Guizhou and other regions. Especially for coal-to-electricity projects in Beijing, a single contract amounted to RMB320 million was secured. Therefore, revenue has increased during this year.

During the year ended 31 December 2017, the Group recorded a net profit of approximately HK$3,962,000 compared with a net loss of approximately HK$31,629,000 for the year ended 31 December 2016.

Gross Profit Margin

Gross profit from the Group's operations for the year ended 31 December 2017 was approximately HK$163,909,000, represented the gross profit margin of 21.06% (2016: approximately HK$110,599,000 represented the gross profit margin of 17.87%). The increase in gross profit margin of the Group was mainly due to the fact that the Group's gross profit during the year under review had been back to normal, while the Group built certain demonstration projects with lower gross profit margin for the new development areas during the year 2016. In the meantime, the trading of air conditioning heat pump products is a competitive business in the mainland China, and the relevant gross profit margin was low. The trading of air conditioning heat pump products attributed to a great portion to the total sales in 2016, it also dragged down the gross profit margin during the year 2016. As stated above, the gross profit was higher as compared with that of last year.

Selling & Distribution Expenses and Administrative Expenses

Selling and distribution expenses for this year decreased by approximately HK$7,774,000, or 25.02% as compared with that of the year ended 31 December 2016. The selling and distribution expenses decreased was mainly due to the fact that the promotional and marketing activities of the relevant projects of the Group decreased during the year. The projects implemented by the Group were the results of business promoted in the previous year. There was no significant increase in number of staff and expenses during the year. As a result, the relevant sales and distribution expenses as a whole decreased during the year.

Administrative expenses amounted to approximately HK$115,669,000 (decreased by 5.35%) and HK$122,208,000 for the years ended 31 December 2017 and 2016 respectively. The administrative expenses was maintained at similar level as compared with last financial reporting year.

During the year ended 31 December 2017, the Group incurred share-based payment expenses of approximately HK$9,546,000 (2016: approximately HK$5,309,000) which was due to the fact that the Group granted share options to directors, officers, employees and business partners which lead to the related expenses.

Order Book

As at 31 December 2017, the Group had contracts on hand of approximately HK$439,685,000 (2016: approximately HK$572,484,000).

Segmental Information

The Group's reportable and operating segment consists of shallow geothermal energy, air conditioning heat pump, properties investment and development and securities investment and trading segments.

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating supply chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning heat pump

The Group continued its air conditioning heat pump business this year and has expanded nearly 2,000 devices in the district of Shunyi and Huairou in Beijing. In the future, the Group will continue to develop such products and enrich the product line constantly to meet the individual needs of the customers.

Properties investment and development

The Group has expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow geothermal energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sale under development had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow geothermal energy as alternative green energy.

Securities investment and trading

The Group invested the idle fund for trading of securities and other types of investments in order to increase the Group's income.

Financial Resources and Liquidity

Net current assets of the Group as at 31 December 2017 was approximately HK$288,559,000 (2016: approximately HK$307,800,000). The Group obtained a specific loan facility of approximately RMB179,500,000 (equivalent to approximately HK$215,529,000) from Beijing Bank's coal-to-electricity specific borrowings during the year 2017. The loan bears interest at approximately 6% per annum and is repayable in August 2018 according to the loan agreement. As at 31 December 2017, the Group has repaid RMB104,800,000 (equivalent to approximately HK$125,836,000).

In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$480,286,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$122,004,000 (2016: approximately HK$73,931,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

Charges of Group Assets

As at 31 December 2017, no assets of the Group have been charged (2016: Nil).

Exposure to Fluctuation in Exchange Rates

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 31 December 2017, the Group had no foreign exchange contracts.

Gearing Ratio

The gearing ratio of the Group, based on total net debt (including interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 37% as at 31 December 2017 (2016: 35%). The gearing ratio was increased due to the fact that the Group obtained "coal-to-electricity" specific borrowing from Beijing Bank.

Employees

As at 31 December 2017, the Group has approximately 660 employees (2016: approximately 650). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

Share Option Scheme

The Company has a share option scheme that provides for the issuance of options to its directors, officers and employees.

At 31 December 2017, the number of shares options had been granted and remained outstanding under the Share Option Scheme 2010 was 486,182,851 (adjusted as a result of the completion of rights issue on 18 July 2017), representing approximately 12.07% of the shares of the Company in issue at that date (2016: 433,020,000, representing approximately 15.05% of the shares of the Company in issue at 31 December 2016).

Contingent Liabilities

As at 31 December 2017, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

Capital Structure

As at 31 December 2017, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,026,925,163 ordinary shares of US$0.01 each.

A rights issue of two rights shares for every five existing shares held by members on the register of members was completed on 18 July 2017, at an issue price of HK$0.10 per rights share, resulting in the issue of 1,150,550, 000 shares for a total cash consideration, before expenses, of HK$115,055,000.

Capital Commitment and Substantial Investments

As at 31 December 2017, the Group had capital commitments, which were contracted but not provided for, in respect of properties under construction, acquisition of of an available-for-sale investment and investment in an associated company of approximately HK$28,156,000, HK$240,000 and HK$22,453,000 respectively.

Future Plans for Substantial Investments of Capital Assets

The Group expects that it will make significant capital expenditures on some of the build-operate-transfer ("**BOT**") business and property investments. BOT business is currently the most common heating business model in the PRC. The Group will promote this model in order to develop heating projects.

Business Review

The Group has been devoted to research, development and promotion of geothermal energy as the substitute energy in providing heating for buildings and focusing in the commercialization of its original technology to realize the intelligent heating (cooling) for buildings free of combustion so as to enhance the development of the emerging industry of integrated heating and cooling with geothermal energy.

Currently, the Group has developed three primary product systems, namely HYY Ground Energy Heat Pump Environmental System corresponding to the traditional heating, Distributed Ground Energy Station for Heating and Cooling corresponding to the central heating for city and HYY Ground Source Heating Device corresponding to the individual heating for rural households which cover different geological conditions, climate conditions, utility conditions, and building types, providing intelligent heating products with no combustion to different customers, making HYY a service provider of multicomponent system solutions.

With diversified products suitable for different environments, the Company is moving ahead constantly in heating industry, which has aroused the high interests of the governments at all levels and users gradually. In addition, President Xi Jiping emphasized to promote the clean heating in winter in northern regions when he presided over the 14th meeting of the Central Leading Group for Financial and Economic Affairs, and the governments at different levels should continue to devote greater efforts to implement the great course of "transiting from coal to clean energy" in 2017. The Group has improved and optimized the system design, product configuration and effectiveness, product security assurance, construction quality and others through active deployment. Different heating product series won the bids in different national key places implementing the policy of transiting from coal to clean energy, and for the coal-free (central heating with ground source heat pump) project obtained in Beijing in 2017, HYY signed contract with relevant enterprises to undertake the heating source of the thermodynamic system, with the contract sum of approximately RMB320 million. The Company also obtained some contracts on renovation projects in Beijing, Tianjin and Hebei for HYY Ground Source Heating Device (room heating), and the air-source heat pump (household heating) also won the bids for the heating system procurement and installation projects in rural villages of Huairou District, Shunyi District and Chaoyang District in Beijing, therefore, the overall income of the Group was improved steadily in 2017. Meanwhile, the Company has made great efforts to cooperate with the government to carry out efficient replacement of coal for construction of the central heating and self-heating infrastructure in cities and towns, and made the renewable shallow geothermal energy as the alternative energy for heating in the northern regions.

The HYY Ground Source Heating Device that self-developed by the Group inherits the thrifty tradition in China. It is characterized by source control, key guarantee, independent metering, and saving efficiency attributed to the doer. Under the premise of guaranteeing the total heat supply, the system can be simply copied and easily operated, is good for differentiated use guided by conservation behavior and greatly satisfied the rural household needs. HYY Ground Source Heating Device consists of four modules: geothermal energy collection, geothermal energy transmission, geothermal energy enhancement, and electrical control. In the geothermal energy collection module, the collection method is determined according to the energy demand of the building; the geothermal energy enhancement module uses the mature heat pump technology to enhance low-grade shallow geothermal energy to the desired high-grade one to heat the building through the terminal unit. Because no fossil fuel or combustion is involved during the energy collection, transmission, enhancement and release processes, electricity equivalent to only one-fourth of the total load is consumed. In addition, the unit can be started or stopped automatically according to the set temperature in the system during operation. The system can have COP of 4 or more. It has the following advantages. The first one is environmental advantage. An important cause for the generation of haze is the low-altitude emissions from large-scale and extensive burning in order to heat buildings, and such emissions contain harmful gases, dust and enormous heat and will become haze under suitable climatic conditions. The HYY Ground Source Heating Device gives off no emissions during the whole process and causes zero pollution to the application area. It contributes to the economic development and improvement of people's living quality while solving the ecological problems by eliminating the conditions for haze production from the source and pursuing harmonious coexistence of human and nature. The second one is technical advantage. The core of HYY Ground Source Heating Device that heats without combustion is the geothermal energy collection technologies of single-well circulation heat exchange and buried pipe. HYY owns all the own intellectual property rights to them. It has the industrialization feature of being highly adaptable to collect shallow geothermal energy (heat) with comparable costs under various geological conditions without pollution, water loss, or potential geological disasters. The third advantage is in the cost. The initial investment to apply the HYY Ground Source Heating Device of no-combustion for one room in size of 30m2 or below is RMB8,000 or below, the electricity consumption is below 800 degree. It can heat and cool the buildings and guarantee the quality of turnkey project. HYY Ground Source Heating Device of no-combustion uses geothermal energy as alternative energy, with operating power consumption equivalent to 25% of that of traditional electric boiler, heating operating cost is equivalent to 17%; when applied for cooling, it saves 15%-20% of the energy consumption needed by the traditional central air-conditioning. The fourth advantage is safe operation. Compared with traditional heating methods that often require fire and explosion protection due to the burning of coal, oil and gas, the combustion-free integrated heating and cooling with geothermal energy only requires the safety of electricity use and is easy to operate, safe and reliable. The fifth advantage is standardization. The HYY Ground Source Heating Device has certain standard for reference to be fully market-oriented. A local standard titled the Technical Code on Geothermal Energy Collection Wells for Single-well Circulation Heat Exchange (DB11/T 935-2012) became effective on 1 April 2013, marking the industrialization of this original technology.

During the review period, we provided 35 service areas and toll stations located in different regions of Liaoning Expressway with shallow geothermal energy heating renovation services, and this was the first time for us to provide shallow geothermal energy heating application for major highway project. In addition, as our patented system has met the requirements of heating systems and buildings of Shanxi Yuncheng Nursing Vocational College (山西運城護理職業學院) which also satisfied with the government single source procurement requirements, the vocational college and HYY signed a contract for the investment in construction of intelligent combustion-free heating/cooling system with single well geothermal energy circulation and 10 years project operations services.

During the review period, Ever Source Investment Co., Ltd, a wholly-owned subsidiary of the Company participated in the establishment of Beijing Life Insurance Co., Limited ("**Beijing Life Insurance**") as one of the promoters, with a contribution to Beijing Life Insurance of RMB142.99 million, accounting for 4.9997% of its share. In the same year, Beijing Life Insurance obtained the Approval on Commencement of Business of Beijing Life Insurance Co., Ltd." issued by China Insurance Regulatory Commission ("**CIRC**"). The headquarters of Beijing Life Insurance have designed and selected HYY Ground Energy Heat Pump Environmental System as its heating, cooling and hot water supply system in the headquarters buildings.

During the review period, Ever Source Science and Technology Development Group Co., Ltd. has undergone rigorous review to pass the certification of many international standard systems including ISO9001, ISO14001 and OHSAS18001.

During the review period, the Company collaborated with a well-known software provider in developing a service platform named "Energy Cloud", which serves as a unified data platform for sales, design, budgeting, procurement, construction, operation and maintenance of the Company. It finally realizes automated, intelligent and integrated information management in the Group's projects.

Operational Challenges and Risks

(i) The shallow geothermal energy serves as the alternative energy of heating, and the premise to ensure heating is to have proper design and construction quality assurance;

(ii) The combination of stable energy supply and stable equipment can guarantee the indoor temperature, and the no-combustion and zero-emission can guarantee the outdoor environment in the regions;

(iii) The heating is a life long guarantee for customers, and the core of the customer services is to the guarantee the heating operations.

Business Outlook

The speech made by President Xi for heating in the northern regions: "Dominated by enterprises, promoted by government and affordable by residents", which makes clear of the heating principle." "Adopt gas if appropriate, adopt electricity if appropriate", which points out the way to develop the clean energy by acting according to local conditions. The speech made by President Xi for heating in the northern regions promoted the transition of heating energy of the new era in northern regions (from burning the primary energy to regional renewable combustion free heating), the Group would prioritize the heat pump products for the northern regions on the basis of renewable shallow geothermal energy supply, promote the industrial development of integrated heating/cooling with geothermal energy, and manage and control the haze.

In the future, the Group would adhere to the market-oriented principle, meet the customers' demands as the target, take the consultation service as the guidance, the technology integration as the basis and product manufacturing as the foundation and the application of demonstration project as the support, and continue to carry out and improve the technology and service capacity comprehensively, focus on the scientific research and development of the shallow geothermal energy as the alternative energy for heating as well as industrial development of the original technology, and put efforts to make the Company an optimal solution provider for smart heating/cooling system.

For the year ended 31 December 2018

Financial Highlights

Revenue Allocation	**2018**		**2017**	
	HK$000	*%*	*HK$000*	*%*
1. Shallow geothermal energy utilisation system				
Including: Planning and Design	6,267	2	4,453	1
Supply of renewable energy	49,509	12	73,886	9
Engineering construction	271,773	68	648,608	83
Operation and maintenance	21,791	5	13,523	2
Intelligent manufacturing	15,502	4	–	–
2. Air conditioning heat pump	14,439	4	23,906	3
3. Properties investment and development	17,512	5	13,777	2
Total revenue	396,793	100	778,153	100

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Revenue	396,793	778,153
Gross profit	29,799	163,909
(Loss)/profit before tax	(419,067)	16,023
(Loss)/profit for the year	(418,511)	3,962
Research and development costs (included in the administrative expenses)	10,054	13,998
Impairment losses on trade and bills receivables, net	16,084	10,464
Impairment losses on contract assets/amounts due from customers for contract work, net	50,966	58,678
Impairment on goodwill	201,881	–

As at 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Current assets	723,203	1,125,694
Total assets	2,493,664	3,100,265
Net current (liabilities)/assets	(590,281)	288,559
Total equity	1,084,862	1,687,030

Financial Review

For the year ended 31 December 2018, the loss of the Group amounted to approximately HK$418,511,000 and revenue amounted to HK$396,793,000 as compared with the profit of the Group amounted to HK$3,962,000 and revenue amounted to approximately HK$778,153,000 for the year ended 31 December 2017. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2018 and 2017.

Operational Results

Total revenue from operations for the year ended 31 December 2018 was approximately HK$396,793,000 as compared with HK$778,153,000 for the year ended 31 December 2017, representing a decrease of 49.0%. The decrease in revenue was mainly attributable to: (i) affected by the market, many of the contracts originally under negotiation were not realized; and (ii) affected by the slowdown in construction sector resulting delay on our construction progress of the project. The construction progress of the main building was delayed, thereby some of the Company's contract projects were postponed. Hence, the revenue declined during the year, During the year ended 31 December 2018, the Group recorded a net loss of approximately HK$418,511,000 (including an impairment on goodwill and contract assets amounted to approximately HK$201,881,000 and

HK$50,966,000 respectively) compared with a net profit of approximately HK$3,962,000 for the year ended 31 December 2017. The impairment loss on goodwill was as a result of certain macroeconomic factors deteriorated in 2018 which caused the sales during the second half of 2018 declined significantly. After careful assessment by the management of the Company and in accordance with Hong Kong Accounting Standards, the management of the Company decided to make an impairment loss on the goodwill of the shallow geothermal energy business of the Group for the year ended 31 December 2018.

Gross Profit Margin

Gross profit from the Group's operations for the year ended 31 December 2018 was approximately HK$29,799,000, represented the gross profit margin of 7.5% (2017: approximately HK$163,909,000 represented the gross profit margin of 21.1%). The Group's gross profit margin had decreased by 13.6%. The decrease in gross profit margin of the Group was mainly due to the fact that since the fourth quarter of the year, the Group has invested in a number of demonstration projects in the Zhangjiakou area, Handan area, Tianjin Baodi and the Changzi County of Shanxi Province for the development of new markets. The demonstration projects, in particular, the coal-to-electricity projects, were installed with the aim at promoting the Company's self-heating system in the aforesaid areas. The profit margin of these demonstration projects ranged from approximately 3% to 5% with some of them being provided on a free basis, which ultimately lowered the overall profit margin of the Group. As a result, the Group's gross profit margin decreased during the year.

Selling & Distribution Expenses

Selling and distribution expenses for this year increased by approximately HK$2,975,000, or 12.8% as compared with that of the year ended 31 December 2017. The selling and distribution expenses increased mainly due to the increase of temporary employees in view of the slowdown of the market condition and that temporary employees are more flexible and beneficial to the Group in terms of cost control for the marketing and promoting the Group's projects in this year. In addition, domestic wage standards was also increased during the year.

Administrative Expenses

Administrative expenses amounted to approximately HK$112,326,000 (decreased by 2.9%) and HK$115,669,000 for the years ended 31 December 2018 and 2017 respectively. The decrease in administrative expenses was mainly due to effective cost control by the Group. These included the decrease in research and development costs by HK$3,944,000.

Share-based Payment Expenses

During the year ended 31 December 2018, the Group incurred share-based payment expenses of approximately HK$3,088,000 (2017: approximately HK$9,546,000) which was due to the fact that the Group granted share options to directors, officers, employees and business partners which lead to the related expenses.

Order Book

As at 31 December 2018, the Group had contracts on hand of approximately HK$290,092,000 (2017: approximately HK$439,685,000).

Segmental Information

The Group's reportable and operating segment consists of shallow geothermal energy, air conditioning heat pump, property investment and development and securities investment and trading segments.

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating supply chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning heat pump

The Group continued its air conditioning heat pump business this year and has expanded nearly 2,000 devices in the district of Shunyi and Huairou in Beijing and Qingxu in Shanxi. In the future, the Group will continue to develop such products and enrich the product line constantly to meet the individual needs of the customers.

Property investment and development

The Group has expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow geothermal energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sale had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow geothermal energy as alternative green energy.

Securities investment and trading

The Group invested the idle fund for trading of securities and other types of investments in order to increase the Group's income.

Financial Resources and Liquidity

Net current liabilities of the Group as at 31 December 2018 was approximately HK$590,281,000 (2017: net current assets of approximately HK$288,559,000). The Group obtained a specific loan facility of approximately RMB179,500,000 (equivalent to approximately HK$215,529,000) from Beijing Bank's coal-to-electricity specific borrowings during 2017. The loan bore interest at approximately 6% per annum and was fully repaid in August 2018 according to the loan agreement.

In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$456,517,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement. Hence, the balance was reclassified to current liabilities accordingly.

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$72,934,000 (2017: approximately HK$122,004,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

- On 7 March 2019, the Company entered into the financial services agreement with China Energy Finance Company Limited ("**Finance Company**"), whereby Finance Company agreed to provide the deposit services, the settlement services, the loan and guarantee services and the other financial services to the Group for the period from 7 March 2019 to 31 December 2021. Finance Company would provide the loan and guarantee services to the member(s) of the Group in an aggregate amount of RMB1,000,000,000;

- In December 2017, the Company invested RMB143 million in an insurance company. This equity investment shall not be disposed by the Company within one year since the establishment of the insurance company before 28 February 2019. The fair value of this equity investment was HK$180,324,000 as at 31 December 2018.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2018 on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

Charges of Group Assets

As at 31 December 2018, a pledged bank deposit amounted to HK$1,549,000 was pledged for a shallow geothermal energy contract (2017: Nil).

Exposure to Fluctuation in Exchange Rates

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 31 December 2018, the Group had no foreign exchange contracts.

Gearing Ratio

The gearing ratio of the Group, based on total net debt (including interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 49% as at 31 December 2018 (2017: 37%). The gearing ratio was increased due to the fact that the Group recognised certain impairment loss in respect of trade and bills receivables, contract assets and goodwill. This led to the decrease in the equity attributable to owners of the parent and hence the increase in the gearing ratio.

Employees

As at 31 December 2018, the Group has approximately 650 employees (2017: approximately 660). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

Share Option Scheme

The Company has a share option scheme that provides for the issuance of options to its directors, officers and employees.

At 31 December 2018 and 2017, the number of shares options had been granted and remained outstanding under the Share Option Scheme 2010 was 486,182,851, (representing approximately 12.07% of the shares of the Company).

Contingent Liabilities

As at 31 December 2018, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

Capital Structure

As at 31 December 2018, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,026,925,163 ordinary shares of US$0.01 each.

Capital Commitment and Substantial Investments

As at 31 December 2018, the Group had capital commitments, which were contracted but not provided for, in respect of properties under construction, acquisition of an equity investment designated at fair value through other comprehensive income and investment in an associated company of approximately HK$22,643,000, HK$228,000 and HK$4,565,000 respectively.

Future Plans for Substantial Investments of Capital Assets

The Group expects that it will make significant capital expenditures on some of the build-operate-transfer ("**BOT**") business. BOT business is currently the most common heating business model in the PRC. The Group will promote this model in order to develop heating projects.

Major Acquisitions and Disposals

There was no major acquisitions or disposal transactions during the year.

Business Review

The Group has always been focusing on research, exploration and development of shallow geothermal energy as alternative energy for building heating based on its original patented technology of "Single-well circulation geothermal energy collection technology" and the development of integrated heating and cooling with shallow geothermal energy emerging industry. We have strived to develop as an integrated heating and cooling with renewable shallow geothermal energy operation entity which integrates scientific research and development, design consultation, equipment manufacturing, engineering installation, operation and maintenance. With its positioning as a "smart heating/cooling system service provider", we have formed five major segments, namely intelligent heating (cooling) system engineering construction, supply of renewable energy (shallow geothermal energy), intelligent manufacturing (heating heat pump), planning and design, operation and maintenance of intelligent heating (cooling) system so as to enhance the capability for the development of entire industry chain.

Under the opportunities and challenges of rapid development and based on the market orientation for the development of various main business segments and responded to the new form of large-scale promotion, the Group has commenced the work of management transformation and adjustment of business model in 2019. The management transformation of the Company carried out in 2019 will be focusing on budget, assessment and disclosure: Firstly, the improvement of social recognition about the renewable shallow geothermal energy is an alternative energy for heating and is also an energy-saving technology for cooling; Secondly, it is an assurance for design and reasonable quality construction and a guarantee for the operation of the integrated heating and cooling. Thirdly, it is to strengthen the formulation and implementation of enterprise standards and to enhance the implementation capability. Fourthly, it is to improve the assessment and incentive policies as well as its transparency so as to ensure fairness.

The Group adjusted its organizational structure in terms of the composition of the Company's business divisions, continuously strengthened the management transformation, and accelerated regional cooperation, including establishing a product channel network combining direct sales and agency, and improving the price system for agents based on the sales level so as to strengthen the Group's sales and market development ability. At present, the Group has completed the establishment of relevant business divisions and a replicated and open business unit mechanism. The Company will focus on speeding up the scale to realize the development of shallow geothermal heating projects integrating investment, construction and operation. Improving the Company's operational and budget execution capabilities in order to enhance the Company's performance and ensure profitability for the year.

In 2018, the Company completed some major shallow geothermal energy heating projects including the construction of energy station of Citizen Service Center of Xiong'an New District, the Capital New Airport, the Yanqing Old County Village Coal-to-electricity project, the Shijingshan Insurance Industrial Park Phase II and the Yanqing Campus of Foreign Language School. Amongst of them, the construction of a 8,000KW distributed geothermal energy heating and cooling station which is a comprehensive energy application project of the Citizen Service Center of Xiong'an New District. Being the first large-scale comprehensive project in the high-profile Xiong'an New District as led by the China Energy Conservation and Environmental Protection Group and Ever Source Science and Technology Development Group Co., Ltd. ("**HYY**") carried out the construction has highlighted China's original single-well circulation heat exchange geothermal energy collection technology which will play a demonstration role in the commencement of large-scale construction of the Xiong'an New District this year.

Recently, the Group has invested in a number of demonstration projects in the Zhangjiakou area, Handan area, Tianjin Boarding area and the Changzi County of Shanxi Province for the development of new markets which has achieved good demonstration effect.

In the first half of 2018, HYY completed the construction of the heating heat pump production R& D base in Haidian District, Beijing which improved the research and development capabilities of the Group's heat pump products for heating and cooling and strengthened the production capacity of the Company's products. It has created favorable conditions for the Company to participate in major projects in the future and laid a solid foundation for promoting the Company's products in Beijing-Tianjin-Hebei and northern heating areas.

In this year, HYY and Beijing Digital Dafang Technology Co., Ltd. jointly built the "HYY Cloud Platform", the first online platform for shallow geothermal heating in China, which has been publicly released for its operation. The platform combined the new information technology of industrial software, cloud computing, big data, mobile Internet, Internet of Things with the field of geothermal energy has provided an open support services for the design, budget, procurement, construction, operation and maintenance of the project, and will obtain relevant income.

Major risks of operation

- It is expected that the market of promotion and application of shallow geothermal energy will expand while the competition will be further intensified. We must strengthen the cost control of the project and improve the project management capability and enhance the assessment, thus offsetting the impact on the business gross profit margin. We have established a bidding and contracting mechanism for the engineering department so as to accurately calculate the cost by category, and further reducing costs and increasing profits during the implementation process.

- The projects undertaken by the Group recorded a large amount of accounts receivable which affects the liquidity of the Company. It is proposed to set up a special unit to supervise the recovery of receivables so as to increase the cash flow for the Company.

- With the adjustment of the business model, the proportion of investment, construction and operation integration projects has increased, and its initial investment is relatively high, which has created pressure on the Company's funds, which also hinders the Company's ability to develop. The Company needs to strengthen the working capital to support the project development, therefore, we will actively enhance the recoverability of payment of project and consider making appropriate financing to maintain the Company's operational capabilities.

Business outlook

The total area of architectural heating in the severe cold and cold northern parts of China is about 20,600,000,000m² (of which 14,100,000,000m² for cities and towns, and 6,500,000,000m² for the rural areas), and the coal fired heating area is 17,100,000,000m², accounting for about 83% of total heating area in the northern region. The annual heating coal consumption is about 400,000,000t standard coal, accounting for about 10% of total energy consumption of current year nationwide. If the shallow geothermal energy is utilized as the heating alternative energy for the northern region, more than 3 trillion huge potential markets will exist, including more than 1 trillion for rural markets.

With the improvement of living standard, the hot-summer and cold-winter regions along the banks of the Yangtze River need both heating and cooling presently. Therefore, it is clear that the heating and cooling integrated industry has huge market potential in the new era.

On 3rd March of this year, "the Chinese Expert Panel has basically ascertained the causes for heavy atmospheric pollution in Beijing-Tianjin-Hebei Region currently; in terms of time, due to the influence of heating, the monthly average emission level of fine particles (PM2.5) and organic carbon, black carbon and other components in autumn and winter is 1.5-4 times of that in the non-heating season; the emission level of the abovementioned pollutants in autumn and winter is higher in Baoding and other cities which consume much bulk coal" was published. Utilizing of clean energy to replace the bulk coal has become the top priority in controlling air pollution. The president Xi Jinping presided over the 14th meeting of the Central Financial Leadership Group on 21 December 2016 emphasized that "the promotion of clean heating in winters of Northern China is an important chapter of the revolution in energy generation and consumption, and the revolution of living style of rural livelihood. In January 2018, the six ministries issued the "Notification on Accelerating the Development and Utilization of Shallow Geothermal Energy to Promote the Reduction and Replacement of Coal in the Northern Heating Area". Driven by the introduction of different national planning and policies as well as the national energy development strategy, the potential for the development of shallow geothermal energy industry is huge.

At present, the Ministry of Environmental Protection has stopped the rural "coal-to-gas" project, and the electric heating method has also made the heating costs for rural users too high. Shallow geothermal energy as an alternative energy for heating in the north with its characteristics of huge in reserve, clean and renewable is outstanding. The theory and practice have proved that shallow geothermal energy is preferred as an alternative energy for northern heating. Provision of heating for buildings with no combustion, zero emissions in the heating region is an effective way to control the smog caused by heating. The cost of power and electricity consumption of heating with shallow geothermal heating is one quarter of that of the electric heating and the operating cost is lower than that of burning coal.

It is expected that the shallow geothermal energy industry will enter the golden development period. We will combine the demand and applicability of geothermal energy heating in various regions, focusing on two poles (Beijing-Tianjin-Hebei region, Xiong'an New District construction) and the overall layout of "three-lines (surrounding regions of high-speed rail, highway and airport), one-Yangtze River and the upstream of Yellow River" vigorously develop the emerging industry of combustion-free integrated heating and cooling with shallow geothermal energy, and actively explore the market. Under the adjustments of the new management transformation for the budget, assessment and disclosure and the business model as well as relying on the management, technology and experience accumulated in the utilization and development of the shallow geothermal energy for 20 years, the shallow geothermal heating and cooling business model being simple replicated will lead the Company enter into another new milestone.

For the year ended 31 December 2019

Financial Highlights

Income Allocation

	2019		2018	
	HK$'000	%	*HK$'000*	%
1. Shallow geothermal energy utilisation system				
Including: Planning and Design	2,101	1	6,267	2
Supply of renewable energy	21,146	6	49,509	12
Engineering construction	163,573	47	271,773	68
Operation and maintenance	37,155	11	21,791	5
Intelligent manufacturing	22,697	6	15,502	4
2. Air conditioning/shallow geothermal heat pump	92,485	27	14,439	4
3. Properties investment and development	6,380	2	17,512	5
Total revenue	345,537	100	396,793	100

	2019	2018
	HK$'000	*HK$'000*
Revenue	345,537	396,793
Gross profit	83,978	17,123
Loss before tax	(406,844)	(419,067)
Loss for the year	(445,023)	(418,511)
Research and development costs (included in the administrative expenses)	6,440	10,054
Impairment losses on trade and bills receivables, net	6,612	16,084
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	54,814	5,521
Impairment losses on uncertainty in respect of collectability of contract assets, net	23,505	50,966
Impairment on goodwill	263,879	201,881

As at 31 December 2019 & 2018

	2019	2018
	HK$'000	*HK$'000*
Current assets	574,672	723,203
Total assets	1,955,668	2,493,664
Net current liabilities	(624,790)	(590,281)
Total equity	664,105	1,084,862

Financial Review

For the year ended 31 December 2019, the loss of the Group amounted to approximately HK$445,023,000 and revenue amounted to HK$345,537,000 as compared with the loss of the Group amounted to HK$418,511,000 and revenue amounted to approximately HK$396,793,000 for the year ended 31 December 2018. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2019 and 2018.

Operational Results

Total revenue from operations for the year ended 31 December 2019 was approximately HK$345,537,000 as compared with HK$396,793,000 for the year ended 31 December 2018, representing a decrease of 12.9%. The decrease in revenue was mainly attributable to: (i) affected by the market, many of the contracts originally under negotiation were not realized; and (ii) affected by the slowdown in construction sector resulting in delay on our construction progress of the project. The construction progress of the main building was delayed, thereby some of the Company's contract projects were postponed. During the year ended 31 December 2019, the Group recorded a net loss of approximately HK$445,023,000 (including an impairment on goodwill and contract assets amounted to approximately HK$263,879,000 and HK$23,505,000 respectively) compared with a net loss of approximately HK$418,511,000 for the year ended 31 December 2018. The shallow geothermal energy remained weak during the year ended 31 December 2019 and only limited amounts of new contracts with short contract period were entered into by the Company. Thus, in applying discounted cash flow model to determine the carrying amount of the shallow geothermal energy business, the forecast of revenues in of the cash-generating units of the business for the five years following 2019 decreased, which resulted in the impairment loss on goodwill of the shallow geothermal energy business of the Group for the year ended 31 December 2019.

Gross Profit Margin

Gross profit from the Group's operations for the year ended 31 December 2019 was approximately HK$83,978,000, represented the gross profit margin of 24.3% (2018: approximately HK$17,123,000 represented the gross profit margin of 4.3%). The Group's gross profit margin had increased by 20%. The increase in gross profit margin of the Group was mainly due to the fact that since the fourth quarter of 2018, the investment in a number of demonstration projects in the

Zhangjiakou area, Handan area, Tianjin Baodi and the Changzi County of Shanxi Province for the development of new markets led to the decrease of the Group's gross profit margin in the previous year. In contrast, the new projects obtained in this year have a higher gross profit margin.

Selling & Distribution Expenses

Selling and distribution expenses for this year decreased by approximately HK$1,096,000, or 8.1% as compared with that of the year ended 31 December 2018. The selling and distribution expenses decreased mainly due to the decreases of the marketing, advertising and office costs resulted by the decrease in projects.

Administrative Expenses

Administrative expenses amounted to approximately HK$101,696,000 (decreased by 9.5%) and HK$112,326,000 for the years ended 31 December 2019 and 2018 respectively. The decrease in administrative expenses was mainly due to effective cost control by the Group. It mainly included the decrease in staff salaries of HK$9,940,000.

Share-based Payment Expenses

During the year ended 31 December 2019, the Group had not incurred any share-based payment expenses while in 2018 the share-based payment expenses amounted to approximately HK$3,088,000 which was the amortisation of relevant expenses arising from the granting of share options to directors, officers, employees and business partners by the Group.

Order Book

As at 31 December 2019, the Group had contracts on hand of approximately HK$173,935,000 (2018: approximately HK$290,092,000).

Segmental Information

The Group's reportable and operating segment consists of shallow geothermal energy, air conditioning/shallow geothermal heat pump, property investment and development and securities investment and trading segments.

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating supply chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning/shallow geothermal heat pump

The Group continued the promotion of its air conditioning/shallow geothermal heat pump business this year and has expanded more than 20,000 devices in the district of Jinzhou and Xinji in Hebei and Gujiao in Shanxi. In the future, the Group will continue to develop such products and enrich the product line constantly to meet the individual needs of the customers.

Property investment and development

The Group has expanded its business to construct the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow geothermal energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sale under development had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow geothermal energy as alternative green energy.

Securities investment and trading

The Group invested the idle fund for trading of securities and other types of investments in order to increase the Group's income.

Financial Resources and Liquidity

Net current liabilities of the Group as at 31 December 2019 was approximately HK$624,790,000 (2018: HK$590,281,000).

As at 31 December 2019, the Group had cash and cash equivalents of approximately HK$56,871,000 (2018: approximately HK$72,934,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing certain measures including entering into the financial services agreement between China Energy Finance Company Limited ("**Finance Company**") and the Company amongst of which loan and guarantee services will be provided by Finance Company.

Charges of Group Assets

As at 31 December 2019, certain of the Group's buildings with a net carrying amount of approximately HK$9,087,000 (2018: Nil) were pledged to obtain a bank loan. While as at 31 December 2018, a pledged bank deposit amounted to HK$1,549,000 was pledged for a shallow geothermal energy contract.

Exposure to Fluctuation in Exchange Rates

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 31 December 2019, the Group had no foreign exchange contracts.

Gearing Ratio

The gearing ratio of the Group, based on total net debt (including interest-bearing bank and other borrowings, lease liabilities, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 59% as at 31 December 2019 (2018: 49%). The gearing ratio increased as compared to last year was due to the decrease in the equity.

Employees

As at 31 December 2019, the Group has approximately 580 employees (2018: approximately 650). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

Share Option Scheme

The Company has a share option scheme that provides for the issuance of options to its directors, officers and employees.

At 31 December 2019, the number of shares options had been granted and remained outstanding under the Share Option Plan 2010 was 486,182,851 (representing approximately 10.7% of the shares of the Company).

Contingent Liabilities

As at 31 December 2019, the Company did not have any contingent liabilities not provided in the financial statements (2018: Nil).

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

Capital Structure

On 9 July 2019, the Company completed the allotment and issue of 250,000,000 shares pursuant a subscription agreement dated 26 June 2019 at a subscription price of HK$0.0785 per share to Ms. Liu Ening. On 9 December 2019, the Company completed the allotment and issue of 250,000,000 shares pursuant a subscription agreement dated 25 November 2019 at a subscription price of HK$0.08 per share to Universal Zone Limited, a company wholly owned by Mr. Zhang Yiying.

As at 31 December 2019, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,526,925,163 ordinary shares of US$0.01 each.

Events After the Reporting Period

(a) 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 of a bank facility. 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. At the extraordinary general meeting held on 13 March 2020, the shareholders of the Company passed the ordinary resolution in respect of the guarantee service agreement and the counter guarantee agreement and the transactions contemplated thereunder. The registration of pledge under the counter guarantee agreement has been completed.

(b) On 15 January 2020, the Company adopted a share award scheme. The purpose of the scheme is to attract, retain and incentivise key employees, executive officers, directors and consultants of the Company and its subsidiaries to retain them for the continual operations and development the Group. Subject to any early termination as may be determined by the board, the scheme shall be valid and effective for a term of ten years commencing on the adoption date. The maximum number of award shares which may be awarded under the scheme shall be 135 million shares, representing approximately 2.98% of the total number of issued shares of the Company as at the adoption date. The maximum number of shares which may be awarded to a selected participant shall not exceed 1 percent (1%) of the total number of issued shares of the Company as at the adoption date.

(c) Since January 2020, the outbreak of Novel Coronavirus ("**COVID-19**") has impact on the business environment in China. Up to the date of approval of these financial statements, certain aspects of the business of the Group were affected by COVID-19. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

Capital Commitment and Substantial Investments

As at 31 December 2019, the Group had capital commitments, which were contracted but not provided for, in respect of properties under construction and investment in an associated company of approximately HK$13,184,000 and HK$4,465,000 respectively.

Future Plans for Substantial Investments of Capital Assets

The Group expects that it will make significant capital expenditures on some of the build-operate-transfer ("**BOT**") business. BOT business is currently the most common heating business model in the PRC. The Group will promote this model in order to develop heating projects.

Major Acquisitions and Disposals

There was no major acquisitions or disposal transactions during the year.

Business Review

The Group has always been focusing on research, exploration and development of shallow geothermal energy as alternative energy for building heating and is a smart heating/cooling system service provider integrating scientific research and development, shallow geothermal energy collection, system design, equipment manufacturing, engineering installation, operation and maintenance to provide public service of integrated clean heating. The Group made full use of its knowledge and application experience in the field of heating, relying on the production capacity of strategic partners, established a sales network that promotes shallow geothermal energy as an alternative energy source for northern heating, and built a heating heat pump production base.

With the complicated market environment in 2019, the Group continued to improve its management measures and refined its management system, achieving initial results. Firstly, the Group formulated new measures for expanding its market according to the characteristics of each market position, and has made clear policies on remuneration, contracts and operating expenses. Secondly, the Group continued to focus on business divisions and develop relevant business with professional companies as platforms. At the same time, the Company has unified the safety and quality standards, performance results auditing standards and platform fees in order to allow the operation and auditing of business divisions be conducted independently. Thirdly, the Group established project centre to coordinate professional platform companies and the engineering team so as to ensure control and schedules between internals and externals are well arranged. Fourthly, in line with the principle of budget first, serious assessment, openness and transparency, the Group has formulated the decentralized approval measures for financial expenditure, and has defined the authorization and approval process. The implementation of the above-mentioned series of measures has ensured the transformation of the Group's management. Due to the implementation of the above-mentioned refined management measures, the Company's operating losses in 2019 were significantly narrowed down as compared with that of 2018.

In 2019, the Group actively developed resources for new projects, and strived to expand the key business projects of the rural ground source heat pump heating transformation project in Boye County, Huaqiaocheng Jinan Zhangqiu Xiuyuanhe Cultural Tourism Comprehensive Project (Phase I), the coal-to-electricity projects in Dingzhou City and Xinji City and ground source energy heat pump environmental system in Tianlu Buildings of Tibet, in particular, the Xiong'an Citizen Service Center project, which was co-constructed by the Group, was awarded the "China Construction Engineering Luban Award", representing the highest honor of quality of our projects in China's construction industry. This is a great affirmation and encouragement for the Group's project teams for construction projects. At the same time, the Group has also invested in a number of demonstration projects in Henan, Anhui and Xinjiang in 2019, which achieved good demonstration results for future development in the regions.

In 2019, the Group re-integrated the after-sales service personnel and maintenance customer service personnel team, established a new customer service center for answering calls for maintenance and repair 24 hours a day, and made use of the "HYY Cloud Platform" developed by the Group for task dispatch and feedback to ensure timeliness and effectiveness of the after-sales maintenance work, which has been well received by users, creating a good atmosphere for the Group to explore new markets.

Major risks of operation

Increases in some operating costs brought about by the new projects: The Group has vigorously expanded markets outside Beijing, especially in neighboring areas such as Shanxi, Hebei, and Shandong, and has successively launched several projects. With the increase of projects, the transportation costs, travelling costs, and local agency costs of the new projects have increased as compared to previous projects in Beijing, and therefore the project operating costs have also increased to a certain extent.

The rise of potential competitors has increased the difficulty of project promotion: in recent years, the Group has actively implemented the three principles of northern heating as "enterprise-oriented, government-driven and affordable for residents", and has vigorously carried out rural clean energy heating transformation projects. Due to the early research and development, early investment and stable performance of the Group's products, it has gained a large market share in the use of shallow geothermal energy to provide heating for rural households. With the continuous upgrade of the Group's products, some potential competitors have also enhanced their product research and development, and a phenomenon of full competition has been formed in some regions making it difficult for the Group to expand its projects.

High receivables which cause pressure on the Group's funding: The Group has established a receivables collection working group to specifically deal with the issue of receivables, but there are still a large number of receivables, which affects the Group's liquidity. Especially a large number of projects that currently require corporate advances, the Group abandoned some of the intended projects.

Business outlook

Although the application of shallow geothermal energy for building heating In China has started late with just over 20 years' development, at present, the total application area has ranked second in the world, just after the United States. According to estimates, the use of shallow geothermal energy as an alternative energy for heating in the northern regions has a huge potential market of about 3 trillion yuan, of which the rural market accounts for more than 1 trillion yuan.

The president Xi Jinping emphasized in the 14th meeting of the Central Financial Leadership Group on 21 December 2016 that "the promotion of clean heating in winters of North China not only relates to the warm winter for the public in the northern region, but also contributes to substantial reduction of smoggy days. This composes an important chapter of the revolution in energy generation and consumption, and the revolution of living style of rural livelihood. It should further pursue in the principles of enterprise-oriented, government-driven and affordable for residents, adopt gas if appropriate, adopt electricity if appropriate, use clean energy as much as possible to speed up the proportion of clean heating." In January 2018, the six ministries issued the "Notification on Accelerating the Development and Utilization of Shallow Geothermal Energy to Promote the Reduction and Replacement of Coal in the Northern Heating Area". All of which will help boosting the development of shallow geothermal energy industry.

The Group will continue to adopt "safety first, standards as the core, lay a solid foundation, make all strategies practicable, do everything responsibly, work happily every day" as the code of conduct. In existing model of business divisions, professional companies and engineering center, we will continue to strengthen regional development and promotion with engineering center as the core to develop an integrated development model of construction, operation, and maintenance as a whole. Besides, system establishment and quantitative assessment measures shall be continuously enhanced to achieve goals and evaluations for every task through transparency to ensure fairness. Refined management around "full budget, assessment, and openness" shall continuously be carried out. Facing different regions, different objects and different needs, the Group will rely on the strategic cooperation of product production and agencies in different regions, and rely on partner channels and Internet channels to firmly develop the business divisions and the "three agents". Classified management based on the business divisions and type of agency to establish a targeted market expansion mechanism which is of high efficiency, flat management, unified internal and external standards so as to exploring a development path with characteristics of Chinese geothermal energy company.

As disclosed in the Letter from the Board in this circular, the Stock Exchange has granted a waiver to the Company from strict compliance with the Rules Requirements and the Company will include in this circular, as alternative disclosure, the summary of financial information of the Target Company for the period from 14 February 2018 (Incorporation date) to 31 December 2018 and for the financial year ended 31 December 2019 with their respective auditor's opinions and hyperlinks that refer to the full disclosure of the financial statements of the Target Company.

The full disclosure of the yearly information disclosure report which included the audited financial information of the Target Company for the period from 14 February 2018 (Incorporation date) to 31 December 2018 and for the financial year ended 31 December 2019 was posted on the website of the Target Company and is accessible via the following hyperlink:

For the period from 14 February 2018 (Incorporation date) to 31 December 2018

https://www.beijinglife.com.cn/eservicecommon/pdfjs/web/viewer.html?file=https%3A%2F%2Fwww.beijinglife.com.cn%2Fzcms%2Fcontentcore%2Fresource%2Fdownload%3FID%3D25619

For the year ended 31 December 2019

https://www.beijinglife.com.cn/eservicecommon/pdfjs/web/viewer.html?file=https%3A%2F%2Fwww.beijinglife.com.cn%2Fzcms%2Fcontentcore%2Fresource%2Fdownload%3FID%3D25824

As the yearly information disclosure report which included the financial information of the Target Company illustrated in the above links were only available in Chinese, the Company has translated the key financial information (i.e. financial statements for the two financial years ended 31 December 2019) in order to, on its best effort, comply with the relevant GEM Listing Rules to provide corporate communication in both English and Chinese to its Shareholders. Set out below summary of the audited financial information of the Target Company for the period from 14 February 2018 (Incorporation date) to 31 December 2018 and for the financial year ended 31 December 2019:

BALANCE SHEET

RMB Yuan

ASSETS	31 December 2019	31 December 2018
Monetary funds	281,268,725	143,492,065
Financial assets at fair value through profit or loss	121,304,516	28,974,455
Financial assets held under resale agreements	14,590,000	25,100,000
Interest receivable	15,319,898	12,110,196
Premiums receivable	9,774,571	1,202,481
Receivables from reinsurers	1,561,002	663,196
Unearned premium reserves receivable from reinsurers	1,680,230	81,543
Claim reserves receivable from reinsurers	3,422,660	207,872
Reserves for life insurance receivables from reinsurers	738,534	232,452
Reserves for long-term health insurance receivables from reinsurers	1,486,401	415,456
Policy loans	3,293,596	314,797
Other receivables	20,127,107	9,205,257
Term deposits	150,000,000	80,000,000
Available-for-sale financial assets	1,744,640,263	1,664,078,685
Investments classified as loans and receivables	1,377,320,000	413,600,000
Statutory deposits	580,000,000	580,000,000
Fixed assets	3,869,392	4,024,603
Intangible assets	32,797,814	23,884,411
Other assets	417,796,854	273,803,221
Total assets	**4,780,991,563**	**3,261,390,690**

LIABILITIES & OWNERS' EQUITY	31 December 2019	31 December 2018
Liabilities		
Premiums received in advance	14,011,484	14,422,560
Handling charges and commissions payable	69,304,427	11,220,049
Payables to reinsurers	4,075,651	1,494,791
Staff salaries payables	65,364,534	44,779,817
Tax payable	2,420,377	1,438,883
Claims payable	2,180,046	1,849,316
Other payables	26,953,761	7,366,998
Policyholders' deposits and investments	391,940,091	-
Unearned premium reserves	17,568,341	51,334,898
Claim reserves	167,770,169	50,266,505
Reserves for life insurance	914,502,531	61,393,366
Reserves for long-term health insurance	(135,492)	604,922
Other liabilities	406,164,783	264,548,576
Total liabilities	2,082,120,703	510,720,681
Owners' equity		
Share Capital	2,860,000,000	2,860,000,000
Other comprehensive income	3,826,064	3,350,106
Unrecovered losses	(164,955,204)	(112,680,097)
Total owners' equity	2,698,870,860	2,750,670,009
Total liabilities and owners' equity	4,780,991,563	3,261,390,690

INCOME STATEMENT

RMB Yuan

	Year 2019	14 February 2018 (Incorporation date) to 31 December 2018
Operating income	1,531,448,947	260,736,175
Premiums earned	1,295,329,017	138,152,882
Premium income	1,269,665,628	190,868,447
Less: Premiums ceded to reinsurers	9,701,855	1,462,210
Net change in unearned premiums reserves	(35,365,244)	51,253,355
Investment income	212,027,418	121,022,817
Gains and losses from changes in fair value	5,102,113	(304,042)
Other operating income	8,990,399	1,864,518
Other incomes	10,000,000	–
Operating expenses	1,583,896,696	374,421,106
Surrenders	5,689,387	225,415
Claims expense	114,901,765	1,089,559
Less: Claims recoverable from reinsurers	1,651,222	175,073
Change in insurance contracts reserves	969,872,415	112,264,793
Less: Insurance reserves recoverable from reinsurers	4,791,815	855,780
Taxes and surcharges	97,299	742,586
Handling charges and commission expenses	244,954,506	59,783,748
Operating and administrative expenses	236,793,591	201,823,149
Less: Expenses recoverable from reinsurers	1,767,656	488,123
Other operating expenses	19,798,426	10,832
Operating loss	(52,447,749)	(113,684,931)
Add: Non-operating income	13,989	12
Less: Non-operating expenses	–	111,880
Total losses	(52,433,760)	(113,796,799)
Less: Income tax expenses	(158,653)	(1,116,702)
Net losses	(52,275,107)	(112,680,097)
Including: Net losses from continuing operation	(52,275,107)	(112,680,097)
Other comprehensive income, net of tax	475,958	3,350,106
Other comprehensive income to be reclassified to profit or loss in subsequent periods	475,958	3,350,106
Changes in fair value of available-for-sale financial assets	475,958	3,350,106
Total comprehensive income	(51,799,149)	(109,329,991)

STATEMENT OF CHANGES IN OWNERS' EQUITY

RMB Yuan

	Year 2019			
	Share capital	Other comprehensive income	Uncovered loss	Total owner's equity
I Balance at the end of prior year and at the beginning of current year	2,860,000,000	3,350,106	(112,680,097)	2,750,670,009
II. Changes during the year	–	475,958	(52,275,107)	(51,799,149)
(1) Total comprehensive income	–	475,958	(52,275,107)	(51,799,149)
III. Closing balance of current year	**2,860,000,000**	**3,826,064**	**(164,955,204)**	**2,698,870,860**

	14 February 2018 (Incorporation date) to 31 December 2018			
	Share capital	Other comprehensive income	Uncovered loss	Total owner's equity
I. Balance at the beginning of current period	–	–	–	–
II. Changes during the current period	2,860,000,000	3,350,106	(112,680,097)	2,750,670,009
(1) Total comprehensive income	–	3,350,106	(112,680,097)	(109,329,991)
(2) Share capital contributed by owners	2,860,000,000	–	–	2,860,000,000
III. Closing balance of current period	**2,860,000,000**	**3,350,106**	**(112,680,097)**	**2,750,670,009**

CASHFLOW STATEMENT

RMB Yuan

	Year 2019	14 February 2018 (Incorporation date) to 31 December 2018
Cash flows from operating activities		
Premium received from premiums of primary insurance contracts	1,256,584,038	204,853,047
Net increase in policyholders' deposits and investments	385,699,964	–
Cash received from other operating activities	332,386,036	313,349,554
Sub-total of cash inflows from operating activities	1,974,670,038	518,202,601
Cash paid for claims of primary insurance contracts	115,291,052	741,479
Net cash paid for reinsurance business	4,692,063	–
Cash paid for handlings charges and commission	191,473,937	47,643,777
Cash paid to and for employees	131,330,576	110,177,380
Cash paid for taxes	83,340	742,586
Cash paid for statutory deposits	–	580,000,000
Cash paid for other operating activities	390,062,154	361,066,830
Sub-total of cash outflows from operating activities	832,933,122	1,100,372,052
Net cash flows from operating activities	1,141,736,916	(582,169,451)
Cash flows from investing activities		
Cash received from sales and redemption of investments	3,220,815,942	1,686,988,361
Cash received from investment income	179,030,275	82,000,673
Sub-total of cash inflows from investing activities	3,399,846,217	1,768,989,034
Cash paid for investment	4,394,794,311	3,843,293,358
Net increase in policy loans	2,978,799	314,797
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	16,458,093	34,550,881
Sub-total of cash outflows from investing activities	4,414,231,203	3,878,159,036
Net cash flows from investing activities	(1,014,384,986)	(2,109,170,002)
Cash flows from financing activities		
Cash received from investors	–	2,860,000,000
Sub-total of cash inflows from financing activities	–	2,860,000,000
Cash paid for other financing activities	85,270	(68,482)
Sub-total of cash outflows from financing activities	85,270	(68,482)
Net cash flows from financing activities	(85,270)	2,859,931,518
Effect of foreign exchange rate changes on cash and cash equivalents	–	–
Net increase in cash and cash equivalents	127,266,660	168,592,065
Add: Balance of cash and cash equivalents at the beginning of the year/period	168,592,065	–
Balance of cash and cash equivalents at the end of the year/period	**295,858,725**	**168,592,065**

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative and unaudited pro forma consolidated statement of financial position as at 30 June 2020, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019 of the Group excluding 4.99965% equity interests in the Target Company upon the completion of the Disposal (the "**Remaining Group**") (collectively the "**Unaudited Pro Forma Financial Information**") which have been prepared to illustrate the effect of the Disposal (i) as if the Disposal had been completed on 30 June 2020 for the unaudited pro forma consolidated statement of financial position as at 30 June 2020, and (ii) as if the Disposal had been completed on 1 January 2019 for the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019.

This Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the Directors in accordance with paragraph 7.31 of GEM Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position, the financial performance and cash flows of the Remaining Group had the Disposal been completed as at 30 June 2020 or 1 January 2019, where applicable, or any future dates.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the published interim report of the Company for the six months ended 30 June 2020, after making certain pro forma adjustments that are directly attributable to the Disposal and factually supportable, as set out below.

The unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of profit or loss, the audited consolidated statement of other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019, which have been extracted from the published annual report for the year ended 31 December 2019, after making certain pro forma adjustments relating to the Disposal that are factually supportable and directly attributable to the Disposal as set out below.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the published annual report of the Company for the year ended 31 December 2019, the published interim report of the Company for the six months ended 30 June 2020, the Company's announcement dated 13 November 2020, 19 November 2020 and 23 December 2020 and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	The Group as at 30 June 2020	Pro forma adjustments	Unaudited pro forma of the Remaining Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 3)*	
Non-current assets			
Property, plant and equipment	289,465	–	289,465
Investment properties	443,197	–	443,197
Right-of-use assets	2,051	–	2,051
Deposits paid for acquisitions of land use rights	26,696	–	26,696
Investments in associates	45,056	–	45,056
Equity investments designated at fair value through other comprehensive income	232,006	(176,263)	55,743
Deferred tax assets	5,097	4,930	10,027
Contract assets	18,794	–	18,794
Trade receivables	58,404	–	58,404
Total non-current assets	1,120,766	(171,333)	949,433
Current assets			
Inventories	29,605	–	29,605
Properties held for sale	86,855	–	86,855
Trade and bills receivables	54,073	–	54,073
Prepayments, other receivables and other assets	191,594	–	191,594
Contract assets	170,608	–	170,608
Amounts due from related companies	881	–	881
Financial assets at fair value through profit or loss	43	–	43
Time deposits	232	–	232
Restricted cash	5,286	–	5,286
Cash and cash equivalents	78,124	259,028	337,152
Non-current assets held for sale	73,253	–	73,253
	690,554	259,028	949,582
Assets of a disposal group classified as held for sale	154,761	–	154,761
Total current assets	845,315	259,028	1,104,343

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group (continued)

	The Group as at 30 June 2020	Pro forma adjustments	Unaudited pro forma of the Remaining Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 3)*	
Current liabilities			
Trade and bills payables	261,640	–	261,640
Other payables and accruals	275,144	–	275,144
Contract liabilities	38,431	–	38,431
Amounts due to associates	15,692	–	15,692
Amounts due to related companies	40,077	–	40,077
Interest-bearing bank borrowings	443,941	–	443,941
Lease liabilities	756	–	756
Tax payable	140,332	25,621	165,953
	1,216,013	25,621	1,241,634
Liabilities directly associated with the assets classified as held for sale	9,238	–	9,238
Total current liabilities	1,225,251	25,621	1,250,872
Net current liabilities	(379,936)	233,407	(146,529)
Total assets less current liabilities	740,830	62,074	802,904
Non-current liabilities			
Other payables and accruals	8,758	–	8,758
Lease liabilities	1,203	–	1,203
Deferred income	7,544	–	7,544
Deferred tax liabilities	68,123	–	68,123
Total non-current liabilities	85,628	–	85,628
Net assets	655,202	62,074	717,276

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group (continued)

	The Group as at 30 June 2020	Pro forma adjustments	Unaudited pro forma of the Remaining Group as at 30 June 2020
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 3)*	
Equity			
Equity attributable to owners of the parent			
Share capital	353,043	–	353,043
Shares held for Share Awards Scheme	(7,676)	–	(7,676)
Other reserves	273,885	62,074	335,959
	619,252	62,074	681,326
Non-controlling interests	35,950	–	35,950
Total equity	655,202	62,074	717,276

Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Remaining Group

	The Group for the year ended 31 December 2019	Pro forma adjustments		Unaudited pro forma of the Remaining Group for the year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	*(Note 5)*	
Revenue	345,537	–	–	345,537
Cost of sales	(261,559)	–	–	(261,559)
Gross profit	83,978	–	–	83,978
Other income and gains	14,017	–	–	14,017
Selling and distribution expenses	(12,505)	–	–	(12,505)
Administrative expenses	(101,696)	–	–	(101,696)
Impairment losses on trade and bills receivables, net	(6,612)	–	–	(6,612)
Impairment losses on prepayments, other receivables and other assets, net	(54,814)	–	–	(54,814)
Impairment losses on contract assets, net	(23,505)	–	–	(23,505)
Finance costs	(39,309)	–	–	(39,309)
Fair value changes on investment properties	4,222	–	–	4,222
Other expenses	(267,360)	(440)	–	(267,800)
Share of profits and losses of:				
A joint venture	(6,105)	–	–	(6,105)
Associates	2,845	–	–	2,845
Loss before tax	(406,844)	(440)	–	(407,284)
Income tax expense	(38,179)	–	–	(38,179)
Loss for the year	(445,023)	(440)	–	(445,463)
Attributable to:				
Owners of the parent	(441,039)	(440)	–	(441,479)
Non-controlling interests	(3,984)	–	–	(3,984)
	(445,023)	(440)	–	(445,463)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

	The Group for the year ended 31 December 2019	Pro forma adjustments		Unaudited pro forma of the Remaining Group for the year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	*(Note 5)*	
Loss for the year	(445,023)	(440)	–	(445,463)
Other comprehensive (loss)/ income				
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	(16,630)	(694)	3,942	(13,382)
Share of other comprehensive loss of a joint venture	(57)	–	–	(57)
Share of other comprehensive loss of associates	(1,127)	–	–	(1,127)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(17,814)	(694)	3,942	(14,566)
Other comprehensive (loss)/ income that will not to be reclassified to profit or loss in subsequent periods:				
Loss on property revaluation	(5,742)	–	–	(5,742)
Equity investments designated at fair value through other comprehensive income:				
Changes in fair value	5,712	89,815	(3,349)	92,178
Income tax effect	(1,285)	(22,344)	837	(22,792)
	4,427	67,471	(2,512)	69,386
Net other comprehensive (loss)/ income that will not to be reclassified to profit or loss in subsequent periods	(1,315)	67,471	(2,512)	63,644
Other comprehensive (loss)/ income for the year, net of tax	(19,129)	66,777	1,430	49,078
Total comprehensive loss for the year	(464,152)	66,337	1,430	(396,385)
Attributable to:				
Owners of the parent	(459,531)	66,337	1,430	(391,764)
Non-controlling interests	(4,621)	–	–	(4,621)
	(464,152)	66,337	1,430	(396,385)

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

	The Group for the year ended 31 December 2019	**Pro forma adjustments**	**Unaudited pro forma of the Remaining Group for the year ended 31 December 2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	
Cash flows from operating activities			
Loss before tax:	(406,844)	(440)	(407,284)
Adjustments for:			
Finance costs	39,309	–	39,309
Interest income	(2,494)	–	(2,494)
Loss on disposal of items of property, plant and equipment	24	–	24
Depreciation of property, plant and equipment	16,172	–	16,172
Gain on remeasurement of the investment in a joint venture	(926)	–	(926)
Fair value change on financial assets at fair value through profit or loss	1,109	–	1,109
Loss on uncertainty in respect of collectability of contract assets, net	23,505	–	23,505
Changes in fair value of investment properties	(4,222)	–	(4,222)
Depreciation of right-of-use assets	4,005	–	4,005
Impairment loss recognised in respect of trade and bills receivables, net	6,612	–	6,612
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	54,814	–	54,814
Impairment loss recognised in respect of goodwill	263,879	–	263,879
Share of profits and losses of associates	(2,845)	–	(2,845)
Share of profits and losses of a joint venture	6,105	–	6,105
	(1,797)	(440)	(2,237)

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group (continued)

	The Group for the year ended 31 December 2019	Pro forma adjustments	Unaudited pro forma of the Remaining Group for the year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	
Decrease in inventories	28,457	–	28,457
Decrease in trade and bills receivables	23,973	–	23,973
Increase in prepayments, other receivables and other assets	(1,233)	–	(1,233)
Decrease in contract assets	69,742	–	69,742
Increase in restricted cash	(5,636)	–	(5,636)
Decrease in pledged deposits	1,548	–	1,548
Decrease in trade and bills payables	(152,741)	–	(152,741)
Increase in other payables and accruals	14,456	–	14,456
Increase in amounts due to associates	12,710	–	12,710
Decrease in amounts due to related companies	(7,267)	–	(7,267)
Decrease in contract liabilities	(11,440)	–	(11,440)
Cash used in operations	(29,228)	(440)	(29,668)
Income tax paid	(3,634)	–	(3,634)
Net cash flows used in operating activities	(32,862)	(440)	(33,302)

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group (continued)

	The Group for the year ended 31 December 2019	Pro forma adjustments	Unaudited pro forma of the Remaining Group for the year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	
Cash flows from investing activities			
Interest received	451	–	451
Purchases of items of property, plant and equipment	(530)	–	(530)
Proceeds on disposal of items of property, plant and equipment	7	–	7
Development costs paid for investment properties under construction or development	(1,036)	–	(1,036)
Disposal of equity investments designated at fair value through other comprehensive income	56	269,445	269,501
Acquisition of a subsidiary	514	–	514
Net cash flows (used in)/from investing activities	(538)	269,445	268,907

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group (continued)

	The Group for the year ended 31 December 2019	Pro forma adjustments	Unaudited pro forma of the Remaining Group for the year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 4)*	
Cash flows from financing activities			
Proceeds from issue of shares	39,625	–	39,625
Principal portion of lease payments	(4,202)	–	(4,202)
Capital contribution by non-controlling interests	1,094	–	1,094
Interest paid	(18,429)	–	(18,429)
Net cash flows from financing activities	18,088	–	18,088
Net (decrease)/increase in cash and cash equivalents	(15,312)	269,005	253,693
Cash and cash equivalents at beginning of year	72,934	–	72,934
Effect of foreign exchange rate changes, net	(751)	–	(751)
Cash and cash equivalents at end of year	56,871	269,005	325,876
Analysis of balances of cash and cash equivalents			
Cash and bank balances	53,448	269,005	322,453
Cash held at non-bank financial institutions	3,423	–	3,423
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows	56,871	269,005	325,876

Notes to the Unaudited Pro Forma Financial Information

(1) The figures are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Company for the six months ended 30 June 2020.

(2) The figures are extracted from the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

(3) The adjustment represents the pro forma gain on the Disposal as if the Disposal, for pro forma purpose, takes place on 30 June 2020.

	HK$'000
Calculation of pro forma gain on the Disposal:	
Consideration	259,468
Carrying value of 4.99965% equity interests in the Target Company as at 30 June 2020	(176,263)
Gain on disposal	83,205
Income tax on the pro forma gain from the Disposal:	
Consideration	259,468
Directly attributable expenses *(note a)*	(440)
Cost of 4.99965% equity interests in the Target Company	(156,545)
Gain on disposal for tax purpose	102,483
Income tax payable (charge at statutory tax rate of 25%)	25,621
Net cash received on the Disposal:	
Consideration	259,468
Directly attributable expenses *(note a)*	(440)
	259,028

(a) The amount of directly attributable expenses is estimated by directors of the Company. For pro forma purpose, it is assumed that the Group will settle the directly attributable expenses by cash at Completion.

For equity investments designated at fair value through other comprehensive income, gains and losses on these financial assets are never recycled to the statement of profit or loss.

Deferred tax assets and deferred tax liabilities of the Group are offset. For pro forma purpose, assuming the Disposal takes place on 30 June 2020, the deferred tax liabilities amounted to HK$4,930,000 for the six months ended 30 June 2020 included in the book of the Group were applied.

	HK$'000
Calculation of pro forma other reserve on the Disposal:	
Gain on disposal	83,205
Directly attributable expenses *(note a)*	(440)
Income tax payable (charge at statutory tax rate of 25%)	(25,621)
Deferred tax credited to capital reserve	4,930
	62,074

Exchange rate of RMB1=HK$1.0948, being the exchange rate at 30 June 2020, has been in this adjustment.

(4) The adjustment represents the pro forma gain on the Disposal as if the Disposal, for pro forma purpose, takes place on 1 January 2019.

	HK$'000
Calculation of pro forma gain on the Disposal:	
Consideration	269,445
Carrying value of 4.99965% equity interests in the Target Company as at 1 January 2019 *(a)*	(179,630)
Gain on disposal	89,815
Income tax on the pro forma gain from the Disposal:	
Consideration	269,445
Directly attributable expenses *(note b)*	(440)
Cost of 4.99965% equity interests in the Target Company	(162,565)
Gain on disposal for tax purpose	106,440
Income tax payable (charge at statutory tax rate of 25%)	26,610
Net cash received on the Disposal:	
Consideration	269,445
Directly attributable expenses *(note b)*	(440)
	269,005

(a) As at 1 January 2019, the carrying amount of the Disposed Investment was RMB158,000,000 (equivalent to approximately HK$179,630,000). The exchange differences on translation of foreign operations were HK$694,000.

(b) The amount of directly attributable expenses is estimated by directors of the Company. For pro forma purpose, it is assumed that the Group will settle the directly attributable expenses by cash at Completion.

For equity investments designated at fair value through other comprehensive income, gains and losses on these financial assets are never recycled to the statement of profit or loss.

Deferred tax assets and deferred tax liabilities of the Group are offset. For pro forma purpose, assuming the Disposal takes place on 1 January 2019, the deferred tax liabilities amounted to HK$4,266,000 for the year ended 31 December 2019 included in the book of the Group were applied.

	HK$'000
Calculation of pro forma other comprehensive income that will not to be reclassified to profit or loss in subsequent periods on the Disposal:	
Gain on disposal	89,815
Income tax payable (charge at statutory tax rate of 25%)	(26,610)
Deferred tax credited to capital reserve	4,266
	67,471

Exchange rate of RMB1=HK$1.1369, being the exchange rate at 1 January 2019, has been in this adjustment.

(5) For pro forma purpose, assuming the Disposal takes place on 1 January 2019, the fair value gain on equity investments designated at fair value through other comprehensive income, related deferred tax liabilities and exchange differences on translation of foreign operations amounted to HK$3,349,000, HK$837,000 and HK$3,942,000 respectively for the year ended 31 December 2019 included in the book of the Group were reversed.

(6) No other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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

To the Directors of China Geothermal Industry Development Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Geothermal Industry Development Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2020, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019 and related notes as set out in Appendix III of the circular dated 26 January 2021 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed disposal of approximately 4.99965% equity interests in Beijing Life Insurance Co., Ltd. (the "**Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2020 as if the Transaction had taken place at 30 June 2020, and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Transaction had taken place as at 1 January 2019. As part of this process, information about the Group's financial position, financial performance and cash flows have been extracted by the Directors of the Company from the Group's financial positions as at 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019, on which interim report and annual report have been published, respectively.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

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

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

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Transaction on unadjusted financial information of the Group as if the Transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Transaction, and to obtain sufficient appropriate evidence about whether:

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

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
26 January 2021

(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 in Shares and Underlying Shares

Name of Directors	Nature of interest	Number of Shares	Number of Share awards	Percentage of total issued Shares[1]
Mr. Xu Shengheng	Beneficial owner	711,646,600	4,000,000	15.83%
	Interest of spouse	982,800		
Ms. Chan Wai Kay Katherine	Beneficial owner	58,290,400	4,000,000	1.69%
	Interest of spouse	14,103,600		
Mr. Wang Manquan	Beneficial owner	716,800	10,000,000	0.24%
Mr. Wang Michael Zhiyu[2]	Beneficial owner		2,000,000	5.57%
	Interest of spouse	250,000,000		
Ms. Liu Ening[2]	Beneficial owner	250,000,000		5.57%
	Interest of spouse		2,000,000	
Mr. Zhang Yiying	Beneficial owner	504,000	2,000,000	5.58%
	Interest of Controlled Corporation[3]	250,000,000		
Mr. Jia Wenzeng	Beneficial owner		2,000,000	0.04%
Mr. Wu Desheng	Beneficial owner		2,000,000	0.04%
M. Wu Qiang	Beneficial owner		2,000,000	0.04%
M. Guo Qingui	Beneficial owner		2,000,000	0.04%
M. Guan Chenghua	Beneficial owner		2,000,000	0.04%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share awards; and (ii) the total number of 4,526,925,163 Shares in issue as at the Latest Practicable Date.

(2) Mr. Wang Michael Zhiyu is the spouse of Ms. Liu Ening.

(3) Universal Zone Limited, which is wholly owned by Mr. Zhang Yiying, holds 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 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 Share Option Scheme has expired and all share options granted but not exercised had lapsed.

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

A lease agreement dated 30 March 2020 was entered into between China Ground Source Energy (Hong Kong) Limited, a wholly owned subsidiary of the Company, as tenant, and Beijing Elite Investments Limited, as landlord, a company held as to 50% equity interests by Ms. Chan Wai Kay, Katherine, Deputy Chairman and an executive Director of the Company, for a lease of office at 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong for a term of two years commencing from 1 April 2020 at a monthly rental rate of HK$65,000.

Save as disclosed, 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 2019, 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.

(IV) 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.

(V) 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.

(VI) 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 in Shares and Underlying Shares

Name	Nature of interest	Number of Shares	Number of share awards	Percentage of total issued Shares[(1)]
CECEP (HK)[(2)]	Beneficial interest	1,190,000,000		26.29%
CECEP[(2)]	Interest of controlled corporation	1,190,000,000		26.29%
Ms. Luk Hoi Man	Beneficial interest	982,800		15.83%
	Interest of spouse	711,646,600	4,000,000	
Universal Zone Limited	Beneficial owner	250,000,000		5.52%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share awards; and (ii) the total number of 4,526,925,163 Shares in issue as at the Latest Practicable Date.

(2) CECEP (HK), a wholly-owned subsidiary of CECEP, holds 1,190,000,000 Shares.

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.

(VII) MATERIAL ADVERSE CHANGE

Due to the COVID-19 epidemic this year, it is expected that the overall revenue scale for the year 2020 will be decreased.

Save as disclosed above, up to and including the Latest Practicable Date, the Directors have not been aware of any material adverse change in the financial or trading position of Group since 31 December 2019, being the date to which the latest published audited financial statements of Group were made up to.

(VIII) MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any material litigations or claims and no litigations or claims of material importance were pending or threatened by or against any member of the Group.

(IX) QUALIFICATION AND CONSENT OF EXPERT

Name	Qualification
Ernst & Young	Certified public accountants

(i) The above expert had no shareholding, directly or indirectly, in the Company or 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 the Company or any member of the Group as at the Latest Practicable Date;

(ii) As at the Latest Practicable Date, the above expert has given and has not withdrawn their written consent to the issue of this circular with the inclusion therein of their report and reference to their names in the form and context which they are included; and

(iii) As at the Latest Practicable Date, the above expert had no direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company or 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 2019, the date to which latest published audited financial statements of the Group were made up.

(X) MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which are or may be material:

(a) The Guarantee Service Agreement dated 16 December 2019 entered into between HYY and CECEP, pursuant to which, in consideration of HYY's provision of the guarantee fee, CECEP agreed to provide the guarantee service to HYY. Details of which were set out in the announcement of the Company dated 16 December 2019;

(b) The Counter Guarantee Agreement dated 16 December 2019 entered into by HYY in favour of CECEP against all amounts which may be incurred by CECEP under the guarantee to be provided by CECEP in favour of a bank for a facility obtained by HYY. Details of which were set out in the announcement of the Company dated 16 December 2019;

(c) The Property Usage Right Transfer Agreement dated 29 March 2020 entered into between HYY, an indirectly wholly owned subsidiary of the Company, and Beijing Sibolian General Mechanical New Technology Company* (四博連通用機械新技術公司), ("**Sibolian**"), pursuant to which, HYY has conditionally agreed to sell, and Sibolian has agreed to purchase, the usage right of the Beijing property at the consideration of RMB114,407,000. Details of which were set out in the circular of the Company dated 27 August 2020;

(d) The equity transfer agreement dated 15 May 2020 entered into between Ever Source Investment and Hangzhou Yunqi Town Development Co., Ltd.* (杭州雲棲小鎮開發有限公司) ("**Hangzhou Yunqi**"), pursuant to which, Ever Source Investment has conditionally agreed to sell, and Hangzhou Yunqi has conditionally agreed to purchase, the 100% equity interests of Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威(杭州)生物科技有限公司), an indirectly wholly owned subsidiary of the Company, at the consideration of RMB143,992,700. Details of which were set out in the circular of the Company dated 15 October 2020; and

(e) The Equity Transfer Agreement.

(XI) GENERAL

(a) The registered office of the Company is at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

(b) The principal place of business in Hong Kong of the Company is at 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong.

(c) The compliance officer of the Company is Mr. Xu Shengheng, who is also an executive Director and the joint chairman of the Board.

(d) The secretary of the Company is Ms. Wong Lai Yuk, an associate member of The Hong Kong Institute of Chartered Secretaries.

(e) The Company's principal share registrar and transfer office in the Cayman Islands is Suntera (Cayman) Limited, 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, Grand Cayman KY1-1110, Cayman Islands.

(f) 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.

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

Mr. Jia Wenzeng ("**Mr. Jia**"), aged 77, has been appointed as an independent non-executive Director of the Company since 25 March 2009. Mr. Jia is also the chairman of audit committee and members of nomination committee and remuneration committee. Mr. Jia had been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Mr. Wu Desheng ("**Mr. Wu**"), aged 81, has been appointed as an independent non-executive Director of the Company since 21 March 2012. Mr. Wu is also the chairman of remuneration committee and members of nomination committee and audit committee. Mr. Wu is the executive director of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, honorary director of the Civil Engineering & Architectural Society of Beijing, the Education Supervisor and Adjunct Professor of Tsinghua University, Beijing University of Civil Engineering and Architecture and Xi'an Jiaotong University. Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963.

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

Mr. Wu Qiang ("**Mr. Wu**"), aged 61, has been appointed as an independent non-executive Director of the Company since 29 December 2016. Mr. Wu is also the members of remuneration committee, nomination committee and audit committee. Mr. Wu graduated from China University of Geosciences, Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology, Beijing and a member of China Academy of Engineering. Mr. Wu was honored with the "Li

Siguang Geological Science Award" and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first "Outstanding Postdoctoral Award of China", "National Outstanding Teacher" and the State-selected candidate of the first project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is the deputy chairman of International Mine Water Association (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and the Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology, a member of Commission of Technology under Former State Administration of Work Safety and the head of "Expert Panel On Hydrogeology" under the State Administration of Coal Mine Safety.

Mr. Wu has published many books and over 300 academic articles. His works were honored with three Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 50 invention patens were granted by the United States, Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the "Team of Safety in Mines" of China Association for Science and Technology.

Mr. Guo Qingui ("**Mr. Guo**"), aged 48, has been appointed as an independent non-executive Director of the Company since 29 December 2016. Mr. Guo is also the members of remuneration committee, nomination committee and audit committee. Mr. Guo graduated from the School of Law of Zhengzhou University. Mr. Guo obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China, he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing), King & Wood Mallesons in Beijing and Zhongxin Law Firm in Beijing. He currently serves as a partner and a lawyer of Beijing DeHeng Law offices. Mr. Guo has been appointed as an independent director of Chifeng Jilong Gold Mining Co., Ltd., an A-share listed company in China with stock code: 600988, from November 2018.

Mr. Guan Chenghua ("**Mr. Guan**"), aged 52, has been appointed as an independent non-executive Director of the Company since 28 March 2020. Mr. Guan is also the members of remuneration committee, nomination committee and audit committee. Mr. Guan graduated from Law School of Peking University in 2005 with a doctoral degree in law and holds an EMBA degree from Cheung Kong Graduate School of Business. He is currently the Dean, professor and doctoral supervisor of The Institute of Economics and Resource Management of Beijing Normal University. He had served as teaching assistant, lecturer, associate professor and Associate Dean of School of Marxism of Peking University, senior visiting scholar at Kennedy School and Law School of Harvard University, the Dean of Innovation and Entrepreneurship College of Xihua University, secretary of Beijing Changping District Committee of the Communist Party of China, and secretary of The Communist Youth League

Beijing Municipal Committee. Mr. Guan is also currently the deputy director of The University Council of Beijing Normal University, the president of Capital Institute of Science and Technology Development Strategy, the director of United Nations Industrial Development Organization (UNIDO) Green Industry Platform (GIP) China Chapter, a committee member of Beijing Municipal Government Expert Advisory Board, the Dean of China Institute of Innovation and Development (CIID), Beijing Normal University, an independent director of Beijing Life Insurance Co., Ltd. etc. Mr. Guan has long been engaged in teaching and research at high-level universities, and has extensive local government work experience. He has also published a number of monographs covering different topics such as education and talent training, city innovation, green economy and development.

(h) in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

(XII) 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 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong during normal business hours up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three financial years ended 31 December 2017, 2018 and 2019 respectively and the interim report of the Company for the six months ended 30 June 2020;

(c) the published financial reports of the Target Company for the period from 14 February 2018 (Incorporation date) to 31 December 2018 and for the year ended 31 December 2019;

(d) the report on the unaudited pro forma financial information of the Remaining Group

(e) the contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(f) the circular of the Company dated 21 February 2020 in relation to the connected transactions;

(g) the circular of the Company dated 27 August 2020 in relation to the major transaction for the disposal of property usage right;

(h) the circular of the Company dated 15 October 2020 in relation to the major transaction for the disposal of 100% equity interest in Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威(杭州)生物科技有限公司);

(i) the written consent referred to in the section headed "Qualifications and Consents of Experts" in this Appendix; and

(j) this circular.

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 the extraordinary general meeting (the "**Extraordinary General Meeting**") of China Geothermal Industry Development Group Limited (the "**Company**") will be held on Friday, 19 February 2021 at 11:00 a.m. at 8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong for the following purposes:

ORDINARY RESOLUTION

To consider and, if thought fit, to pass the following resolution as ordinary resolution:

"**THAT**:

(a) the entering into of the equity transfer agreement dated 13 November 2020 (the "**Equity Transfer Agreement**") and the supplemental equity transfer agreement dated 23 December 2020 (the "**Supplemental Equity Transfer Agreement**"), a copy of each has been produced to the meeting and respectively marked "A" and "B" and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder and the implementation thereof be and are hereby confirmed, approved, authorised and ratified; and

(b) any director of the Company be and is hereby authorised for and on behalf of the Company to sign and execute all such other documents, instruments and agreements and to do all such acts or things and to take all such steps as the director in his/her sole opinion and absolute discretion may consider necessary, appropriate, desirable or expedient to give effect to the Equity Transfer Agreement, the Supplemental Equity Transfer Agreement and the transactions contemplated thereunder."

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

Hong Kong, 26 January 2021

* *For identification purposes only*

As at the date hereof, the Board of Directors of the Company comprises Mr. Xu Shengheng, Ms. Wang Yan, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Ms. Hao Xia and Mr. Daiqi 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, Mr. Guo Qingui and Mr. Guan Chenghua as independent non-executive Directors.

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting 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 Extraordinary General Meeting and in such event, the form of proxy shall be deemed to be revoked.

4. The register of members of the Company will be closed from Tuesday, 16 February 2021 to Friday, 19 February 2021, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 11 February 2021.