
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.

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中國地熱能產業發展集團有限公司

CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**MAJOR TRANSACTION
IN RELATION TO
DISPOSAL OF 100% EQUITY INTEREST IN TARGET COMPANY
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 Tuesday, 10 November 2020 at 11:00 a.m. is set out on pages 34 to 35 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.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CECEP”	China Energy Conservation and Environmental Protection Group* (中國節能環保集團有限公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CECEP (HK)”	China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited* (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and wholly-owned by CECEP
“Company”	China Geothermal Industry Development Group Limited, Shares of which are listed on the GEM
“Directors”	directors of the Company
“Equity Disposal”	the disposal of the Target Company Interest by HYY Investment to Hangzhou Yunqi pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement dated 15 May 2020 for the sale and purchase of the Target Company Interest between HYY Investment and Hangzhou Yunqi
“Equity Transfer Consideration”	the total consideration of RMB143,992,700 for the Equity Disposal pursuant to the Equity Transfer Agreement
“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 10 November 2020 at 11:00 a.m.
“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

DEFINITIONS

“Hangzhou Land & Property”	the land use rights of a piece of land located at No. 6 Zhuantang Science and Technology Economic Zone, Zhuantang Jie Dao, Xihu District, Hangzhou City, Zhejiang Province, the PRC and three blocks of industrial/ancillary office buildings were erected thereon with a total gross floor area of approximately 24,320 sq.m.
“Hangzhou Yunqi”	Hangzhou Yunqi Town Development Co., Ltd.* (杭州雲棲小鎮開發有限公司), a limited liability company registered in PRC
“HK\$” and “HK cent(s)”	Hong Kong dollars and cent(s) respectively, the lawful currency of Hong Kong
“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
“HYY Investment”	HYY 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”	12 October 2020, 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“Target Company”	Goodway (Hangzhou) Biotechnology Ltd.* (嘉德威(杭州)生物科技有限公司), a limited liability company registered in PRC
“Target Company Interest”	100% equity interests of the Target Company
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America
“%”	percent

LETTER FROM THE BOARD



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

Executive Directors:

Mr. Xu Shengheng
Ms. Wang Yan
Ms. Chan Wai Kay, Katherine
Mr. Wang Manquan
Ms. Hao Xia
Mr. Daiqi

Registered office:

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

Non-executive Directors:

Mr. Yang Wei
Mr. Wang Michael Zhiyu (*Ms. Liu Ening being his
alternate Director*)
Mr. Zhang Yiying

*Head office and principal place of
business in Hong Kong:*

8/F., Chung Hing Commercial Building,
62-63 Connaught Road Central,
Central, Hong Kong

Independent non-executive Directors:

Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Wu Qiang
Mr. Guo Qingui
Mr. Guan Chenghua

15 October 2020

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

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO
DISPOSAL OF 100% EQUITY INTEREST IN TARGET COMPANY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular, among other matters, is to provide you with the relevant information regarding the major transaction in respect of the Equity Disposal and to give you the notice of EGM.

2. THE EQUITY DISPOSAL

Reference is made to the announcement of the Company dated 15 May 2020. As announced, Hangzhou Yunqi as buyer and HYY Investment (a wholly owned subsidiary of the Company) as seller entered into the Equity Transfer Agreement, pursuant to which, HYY Investment has conditionally agreed to sell, and Hangzhou Yunqi has conditionally agreed to purchase, the Target Company Interest at the consideration of RMB143,992,700.

THE EQUITY TRANSFER AGREEMENT

Date

15 May 2020

Parties

- (1) HYY Investment (as seller)
- (2) Hangzhou Yunqi (as buyer)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Hangzhou Yunqi is a state-owned enterprise under the supervision of the West Lake District People's Government of Hangzhou City. Therefore, Hangzhou Yunqi and its ultimate beneficial owner are Independent Third Parties.

Key Terms

The key terms of the Equity Transfer Agreement are as follows:

Disposal of Target Company Interest

HYY Investment, a wholly owned subsidiary of the Company, shall sell, and Hangzhou Yunqi shall purchase, the Target Company Interest and the Hangzhou Land & Property held by Target Company at the Equity Transfer Consideration.

LETTER FROM THE BOARD

Conditions Precedents

Completion is subject to the following conditions precedent being satisfied:

- (i) The Equity Transfer Agreement has been approved at shareholders' meeting of the Company in accordance with the GEM Listing Rules and obtained the written consent of other stakeholders. When the conditions precedent being fulfilled, the seller shall deliver the buyer a "Notice of Fulfillment of Conditions Precedents".
- (ii) The buyer's superior authority has reviewed and approved the Equity Transfer Agreement. When the conditions precedent being fulfilled, the buyer shall deliver the seller a "Notice of Fulfillment of Conditions Precedents".

The Equity Transfer Agreement takes effect on the date when all the above two conditions precedent being fulfilled. The date on which all conditions precedents are fulfilled refers to the date on which the latest one of the two "Notice of Fulfillment of Conditions Precedents" is served. The Equity Transfer Agreement will not be effective if the above conditions precedents are not fulfilled on or before 15 July 2020, neither party shall constitute a breach of contract and shall not bear the liability for breach of contract. The seller shall refund the deposit received to the buyer within ten working days from the date when the conditions precedent being confirmed to be unsatisfied. As further announced by the Company on 23 July 2020, the Company received a written notice from the buyer on 21 July 2020, pursuant to which, the buyer agreed that the Equity Transfer Agreement shall not be bound by the long stop date of 15 July 2020. Save as disclosed above, all the other terms and conditions of the Equity Transfer Agreement shall remain unchanged.

Among the conditions precedents, the Equity Transfer Agreement shall be obtained the written consent of other stakeholders which refers to a consent for disposal required from CECEP as the Hangzhou Land and Property held by the Target Company was originally approved to be one of the pledged assets under the counter-guarantee for which assets shall be provided to CECEP for guarantee the repayment obligation arise under the guarantee given by CECEP in favour of the bank in relation to our loan application of RMB400,000,000. As at the Latest Practicable Date, CECEP has given the consent for the disposal.

Equity Transfer Consideration and its basis

The Equity Transfer Consideration is RMB143,992,700. The Equity Transfer Consideration was determined after arm's length negotiations between the parties with reference to, among others, (i) the Target Company's unaudited net asset value of approximately RMB122,009,000 as at 31 March 2020; and (ii) the value of the Hangzhou Land & Property held by the Target Company approximately RMB140,500,000 (as assessed by an independent valuer as at 31 December 2019).

Payment of Consideration

The Equity Transfer Consideration shall be satisfied:

- (a) Within five working days from the date of signing of the Equity Transfer Agreement, the buyer shall pay a deposit of RMB30,000,000 to the seller.

LETTER FROM THE BOARD

- (b) After the Equity Transfer Agreement taking effect, the buyer shall pay the Equity Transfer Consideration to the seller as follows:
- (i) Within ten working days from the effective date of the Equity Transfer Agreement, the buyer shall pay RMB70,794,890 to the seller, together with the deposit of RMB30,000,000 to be converted into Equity Transfer Consideration, to complete the payment of 70% of the Equity Transfer Consideration, representing RMB100,794,890 (the “**First Instalment**”).
 - (ii) The seller shall complete the equity delivery matters within 60 working days from the date of receiving the First Instalment. Within seven working days from the date of completion of the equity delivery matters, the buyer shall pay RMB35,998,175 to the seller and shall complete the payment of 95% of the Equity Transfer Consideration, representing RMB136,793,065 (the “**Second Instalment**”), and provide the “Equity Transaction Voucher”.
 - (iii) The remaining 5% of the Equity Transfer Consideration, i.e. RMB7,199,635, will be used as the seller’s performance deposit. Within 12 months from the date of providing the “Property Transaction Voucher”, if there are no contractual obligations that should be performed by the seller but not performed, the buyer shall pay the remaining balance of the Equity Transfer Consideration to the seller within 5 working days from the date of expiration of the 12-month period.

As at the Latest Practicable Date, HYY Investment has received RMB100,000,000.

Equity Delivery Matters

Within 60 working days after the seller receives the First Instalment from the buyer, it shall complete the discharge of all creditors’ right and liabilities of the Target Company, release all external guarantees, mortgages, guarantees of the Target Company, and transfer the relevant financial or information of the Target Company to the buyer. Both parties shall jointly complete the industrial and commercial registration procedures to register the Target Company’s equity under the name of the buyer.

As the shareholders’ meeting for approval of the Equity Transfer Agreement is expected to be held in early November 2020 and, pursuant to the Equity Transfer Agreement, the equity delivery matters including the release of all external guarantees shall be completed within 60 working days after the receipt of the First Instalment, the deadline for completion of equity delivery matters will be around February 2021. The Company anticipated that the auction of the pledged assets by the court will be completed and our bank guarantees with Bank of Communication Co., Ltd. will be released before February 2021, therefore, we are of the opinion that the completion of the Equity Transfer Agreement will not be affected.

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Other Major Terms

The seller and the buyer agree that all the profit or loss, creditors' right and liabilities of the Target Company incurred before the date of the change of equity registration shall be borne by the seller. Therefore, the profit or loss of the Target Company during the transition period prior to the completion of the Equity Transfer Agreement shall belong to and borne by HYY Investment.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company as at the date of this circular. The Target Company mainly holds the Hangzhou Land & Property.

Set out below the unaudited financial information of the Target Company for the two years ended 31 December 2019 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December/as at	
	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Revenue	231	40
Profit before tax	4,911	7,974
Profit after tax	1,851	5,719

The unaudited net asset value of the Target Company as at 31 March 2020 was approximately RMB122,009,000. Based on the unaudited management accounts of the Group as at 31 March 2020, the carrying value of the Target Company was approximately RMB136,991,000. The difference of these two values was mainly the amount owed by Target Company to HYY Investment, its immediate holding company, of which it was mainly the advance to Target Company for the construction and renovation of the buildings since the original acquisition.

The profit recorded for the year ended 31 December 2019 was mainly due to the gain on fair value change of the Hangzhou Land and Property which is basically irrelevant to the revenue. Therefore, the Directors are of the opinion that entering into the Equity Transfer Agreement to dispose the Target Company which mainly holds the Hangzhou Land & Property is fair and reasonable.

At the acquisition of the Target Company (the “**2014 Acquisition**”) by HYY Hangzhou Ever Source Energy and Technology Ltd. (“**HYY Hangzhou**”), an indirect wholly-owned subsidiary of the Company, in December 2014, there were three bank guarantees executed by the Target Company to guarantee the liabilities of three bank loans of a total principal amount of RMB31,000,000 borrowed by two companies that controlled by Mr. Chen Zaixian (“**Mr. Chen**”), the original seller of the 2014 Acquisition, while two of the relevant bank loans are secured by properties assets pledged by Mr. Chen. One of the bank guarantees

LETTER FROM THE BOARD

was made in favour of Shanghai Pudong Development Bank Co., Ltd. (“**SPD Bank**”) in December 2013 and the other two bank guarantees (the “**BOCOM Guarantees**”) were made in favour of Bank of Communications Co., Ltd. (“**BOCOM Bank**”) in June 2014.

In view of the possible financial obligation existed under the relevant guarantees made by the Target Company, a supplemental agreement dated 30 December 2016 was entered, by which, among the others, the consideration of the 2014 Acquisition was reduced from RMB93,000,000 to RMB65,100,000. Pursuant to the supplemental agreement, the seller shall still need to bear all the legal and financial obligations in relation to the said guarantee obligations. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Mr. Chen is an Independent Third Party.

To our best knowledge, information and belief having made all reasonable enquiries, the three bank loans have been in default for repayment. The two banks have within the guarantee period filed claims with the court for exercising their rights under the loan and guarantee agreements and the court has granted two judgements in April 2017 and May 2017 stating that the Target Company should still have the joint liability under the guarantee agreements with these outstanding bank loans. However, in so far, no action was taken against the Target Company by two banks for performing the guarantee obligations nor requested for repayment of the loans.

As HYY Investment has entered into the Equity Transfer Agreement for disposal of the Target Company, therefore, the Company has to resolve the matter to having the bank guarantees to be released so as to allow HYY Investment to proceed with the completion of the equity transfer under the Equity Transfer Agreement. As such, the Company has taken steps including negotiations with Mr. Chen, SPD Bank and BOCOM Bank with an aim to find ways for releasing the bank guarantees provided by the Target Company.

For the bank guarantee with SPD Bank, on 11 September 2020, the People’s Court of Xiacheng District of Hangzhou City (杭州市下城區人民法院) has issued an enforcement case closure notice which has announced that the enforcement to the dispute case between SPD Bank, as lender, the borrower and the guarantors of which the Target Company is one of the guarantors, in relation to the outstanding bank loan was settled and completed. Therefore, the bank guarantee provided by the Target Company in favour of SPD Bank was discharged. In this case, the Target Company has paid RMB4,000,000 out of the total claimed amount of RMB7,237,318.67 (including outstanding principal amount, interest, penalty, legal fee etc.) to SPD Bank for settlement of the bank loan.

For the two outstanding bank loans with the BOCOM Bank, a letter dated 22 September 2020 (the “**BOCOM Letter**”) was issued by BOCOM Bank stating that:

- (i) the total outstanding amount as at 15 September 2020 was RMB20,555,309.96 of which the principal amount was RMB6,550,541.41 and outstanding interest amount was RMB14,004,768.55 (the interest was calculated up to 15 September 2020).
- (ii) According to the court judgement, BOCOM Bank has the priority of compensation with respect to the pledged assets. According to a valuation made by the People’s Court of Ganjiang District of Hangzhou City (杭州市干江區人民法院) in July 2019, the pledged assets was valued in the amount of RMB58,631,100. However, the valuation report has lapsed because that valuation did not take into account of the construction fee in relation to construction in

LETTER FROM THE BOARD

progress, the leasing of the pledged assets, the salaries payable to the workers etc. which would have impact to the value of the pledged assets. Therefore, the pledged assets will be revalued and the amount of the pledged assets put for auction will take reference to the valuation.

- (iii) BOCOM Bank has applied to the People's Court of Ganjiang District of Hangzhou City to speed up the implementation for the sale of the pledged assets.

According to the BOCOM Letter, the court has commenced the implementation process for the auction of the pledged assets which is expected to take around 3-4 months to complete. Assuming that the pledged assets has no value or the auction is abortive, the estimated maximum liabilities under the BOCOM Guarantees up to 14 January 2021 (4 months after 15 September 2020 being the expected lead time for completion of auction) will not be exceeding RMB21,377,522.36 which was calculated based on the outstanding amount of RMB20,555,309.96 as of 15 September 2020 plus additional interest and penalty that will be incurred for the 4 months after 15 September 2020 of RMB822,212.40 ($\text{RMB20,555,309.96} \times 12\% \times 4/12$). However, to our best knowledge, the value of the pledged assets is more than sufficient to cover the outstanding debt amount with BOCOM Bank.

On the other hand, with regard to the 2014 Acquisition, assuming the Target Company under the BOCOM Guarantees shall settle the above estimated outstanding amount as at 14 January 2021 of RMB21,377,522.36 plus the amount of RMB4,000,000 actually paid to SPD Bank which comes in a total of RMB25,377,522.36 (the "**Maximum Liable Amount**"), representing the maximum liable amount under the three bank guarantees. The amount of RMB27,900,000 (the consideration of the 2014 Acquisition adjusted from RMB93,000,000 to RMB65,100,000) originally deducted still can fully offset the Maximum Liable Amount of RMB25,377,522.36 under the bank guarantees of the Target Company. Therefore, the Board considered that the liability which may be borne by the Target Company would have no significant adverse impact to the 2014 Acquisition.

Save as disclosed above in relation to the Hangzhou Land and Property pledged under the counter-guarantee entered with CECEP and the bank guarantees provided by the Target Company for the bank loans borrowed by companies controlled by Mr. Chen Zaixian, as at the Latest Practicable Date, the Target Company has no other outstanding guarantees, pledges and/or mortgages.

INFORMATION ABOUT HANGZHOU LAND & PROPERTY HELD BY THE TARGET COMPANY

The Hangzhou Land & Property held by the Target Company is located at No. 6 Zhuantang Science and Technology Economic Zone, Zhuantang Jie Dao, Xihu District, Hangzhou City, Zhejiang Province, the PRC with a site area of approximately 29,976 sq.m. and shall be developed by two phases. The phase I was developed with three blocks of industrial/ancillary office buildings erected with a total gross floor area of approximately 24,320 sq.m. and all buildings are currently vacant without leasing. The phase II is currently a vacant land pending for development and at present the Company has no concrete development plan. The land use rights was granted for industrial use. Since the 2014 Acquisition, the Company has further invested approximately RMB13,000,000 for the construction and renovation of the buildings which mainly involved

LETTER FROM THE BOARD

the upgrade and transformation of fire-fighting facilities in accordance with the new imposed fire protection regulations, the maintenance and repairing of the exterior wall of the buildings which was severely damaged by typhoon in about 2 years ago and expenses for daily maintenance and management of the buildings etc.

FINANCIAL EFFECT OF THE EQUITY DISPOSAL AND PROPOSED USE OF PROCEEDS

Based on the unaudited management accounts of the Group as at 31 March 2020, the carrying value of the Target Company was approximately RMB136,991,000. To our best knowledge, information and belief having made all reasonable enquiries, there is no material changes in the financial information of the Target Company after 31 March 2020. It is estimated that the Group will realise an unaudited gain from the Equity Disposal of approximately RMB7,002,000 (as calculated by the total consideration of the Right Disposal of RMB143,992,700 minus the carrying value of the Target Company of RMB136,991,000) (without deduction of expenses related to the Disposal). Furthermore, if by assuming all the Maximum Liabile Amount of RMB25,377,522.36 to be settled by the Target Company, it is estimated that the Group will then realise an unaudited loss from the Equity Disposal of approximately RMB18,376,000 (as calculated by the estimated gain of RMB7,002,000 minus the Maximum Liabile Amount of RMB25,377,522.36). However, as the increase of the carrying value of the Target Company was mainly come from the fair value change of the Hangzhou Land & Property, the main assets held by the Target Company, recorded in the years since the 2014 Acquisition which is basically on non-cash basis.

If calculating the gain/loss on actual cash basis with assumption to bear the Maximum Liabile Amount of RMB25,377,522.36 by the Target Company, the Equity Disposal in fact can secure a gain of approximately RMB40,515,000 (as calculated by the total consideration of the Equity Disposal of RMB143,992,700 minus the sum of the consideration of the 2014 Acquisition of RMB65,100,000 and the investment of approximately RMB13,000,000 for the construction and renovation of the buildings made after 2014 Acquisition and the Maximum Liabile Amount of approximately RMB25,377,522.36).

The proceeds from the Equity Disposal will be used as general working capital of the Group including repayment of loan.

Upon Completion, the Company will cease to have any equity interest in the Target Company and the Target Company will cease to be subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

The Board considers that the Equity Disposal is a good opportunity for the Group to realize its assets and investment held and will improve the liquidity of the Group. Due to the impacts of the outbreak of COVID-19 epidemic, the business has been significantly affected resulting in the decrease in revenue of the Group. We expect the overall world economy including the PRC will be slowed down in the year, in particular the real estate market in the PRC. We find these are excellent opportunities for the Company, particularly in an economic downturn situation, to realize more cash from the disposals so that we can reserve more sufficient fund to support further business development of the Group. Besides, we could lock in the gain from theses disposals and avoid the possible price fall of the property market. Furthermore, in consideration of the debt level of the Group, cash generated from the disposals can be utilized for repayment of loan which will reduce the Company's overall debt level and decrease the finance cost incurred by the

LETTER FROM THE BOARD

loan, thereby profitability of the Group can be enhanced. The Company will seize every opportunities based on the market conditions and try to realize the value of assets and investments held by the Company at the best time possible. As at the Latest Practicable Date, save as disclosed, there is no concrete negotiation on any other asset disposal.

The Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the Equity Transfer Agreement are on normal commercial terms that are fair and reasonable; and
- (b) the Equity Disposal is in the interest of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE GROUP AND HANGZHOU YUNQI

The Group

The Company is an investment holding company, whose subsidiaries are principally engaged in the research, development and promotion of shallow geothermal energy as an alternative energy to provide heating for buildings and is committed to the industrialization development of the original technology which can accelerate the all-around upgrade and transformation of the traditional heating industry with combustion, emissions and pollution to an emerging industry of combustion-free integrated heating and cooling system with shallow geothermal energy.

Hangzhou Yunqi

Hangzhou Yunqi is a limited liability company registered in PRC and is mainly engaged in the development, construction and services of Zhuantang Industrial Zone.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio(s) (as defined in Chapter 19 of the GEM Listing Rules) in respect of the Equity Disposal exceed 25% but are less than 75%, the Equity Disposal constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholders or any of their respective associates have a material interest in the Equity Disposal, thus no Shareholder is required to abstain from voting for the resolution if the Company were to convene a general meeting to approve the Equity Disposal.

3. EGM

A notice convening the EGM is set out on pages 34 to 35 of this circular, ordinary resolution will be proposed to approve the Equity Disposal.

LETTER FROM THE BOARD

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.

4. RECOMMENDATION

The Directors considered that the approval of the Equity 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.cgseenergy.com.hk>):

- annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (pages 40 to 130);
- annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 42 to 158);
- annual report of the Company for the year ended 31 December 2019 published on 31 March 2020 (pages 43 to 152); and
- interim report of the Company for the six months ended 30 June 2020 published on 12 August 2020 (pages 7 to 45).

(II) STATEMENT OF INDEBTEDNESS**Borrowings – Secured**

As at 31 August 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 RMB5,500,000 which was secured by property. In addition, the Group had a secured and guaranteed interest-bearing bank borrowings of RMB300,000,000 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 31 August 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 31 August 2020, bank borrowings was secured by property with a carrying amount of approximately RMB8,102,000 and certain investments in equity interests with a total carrying amount of approximately RMB378,677,000.

Contingent Liabilities

As at 31 August 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 31 August 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.

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

The following is the text of a letter and property valuation report prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the Hangzhou Land & Property as at 30 September 2020.



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15 October 2020

The Board of Directors
China Geothermal Industry Development Group Limited
8th Floor
Chung Hing Commercial Building
62-63 Connaught Road Central
Central
Hong Kong

Dear Sirs,

Re: Goodway Biotechnology Industry Base, No. 6, Zhuantang Science and Technology Economic Zone, Zhuantang Jiedao, Xihu District, Hangzhou City, Zhejiang Province, the People's Republic of China

In accordance with the instruction from China Geothermal Industry Development Group Limited (the "**Company**"), together with its subsidiaries, the "**Group**") for us to value the captioned property located in the People's Republic of China (the "**PRC**"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of the property as at 30 September 2020 (the "**Valuation Date**") for public documentation purpose.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation and lists out the assumptions and title investigations, which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation is our opinion of market value which is defined to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

In valuing of the property, which is held for investment by the Group, we have adopted the Direct Comparison Method assuming the property is capable of being sold in its existing state and by making reference to comparable sales evidence as available in the relevant markets.

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property. No forced sale situation in any manner is assumed in our valuation. In addition, we have been advised by the Group that the property is not subject to any option or right of pre-emption which would concern or affect the sale of the property unless otherwise specified in this report.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

We have been provided by the Group with copies of documents in relation to the title to the property located in the PRC. We have not examined the original documents to verify ownership and to ascertain the existence of any amendments which do not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by the Group and the legal opinions prepared by Zhejiang Kingshine Law Firm, the Group's legal adviser on the PRC law (the "**PRC Legal Adviser**"), regarding the title to the property.

The property was previously inspected during December 2019 by Mr. Tony M. W. Cheng, a manager of our firm who has over 10 years of experience in the inspection of properties in Hong Kong and the PRC. We are unable to conduct physical re-inspections of the property since our previous site visit in December 2019 due to the outbreak of Coronavirus Disease (COVID-19). In our previous inspections, we have inspected the exterior and, where possible, the interior of the property. As agreed with the Group, we have conducted our valuation on desktop basis and have confirmed with the Group that there have been no material changes to the physical attributes or the surrounding environment of the property or the nature of the interest being valued. We have also made reference to recent photos of the property provided by the Group. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the site and floor areas of the property but have assumed that the site and floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached property valuation report are based on information contained in the documents provided to us and are, therefore, only approximations.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any development.

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

We have relied to a considerable extent on the information provided by the Group and the PRC Legal Adviser regarding the title to the property, we have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site and floor areas and all other relevant materials regarding the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld. The management of the Group has reviewed and confirmed the factual content and has agreed to the assumptions and limiting conditions of this report.

In valuing the property, we have complied with all the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, The HKIS Valuation Standards 2017 issued by the Hong Kong Institute of Surveyors, the International Valuation Standards (Effective 31 January 2020) published by the International Valuation Standards Council, where applicable, and under generally accepted valuation procedures and practices.

Peak Vision Appraisals Limited has previously been involved in the valuation of the property and Mr. Nick C. L. Kung has been the signatory to the valuation since 2014. The proportion of total fees payable by the Group during the preceding year relative to the total fee income of Peak Vision Appraisals Limited is minimal. For the subject valuation, Peak Vision Appraisals Limited does not yet adopt a rotation policy, and instead, our valuation will be periodically reviewed by another member of the Hong Kong Institute of Surveyors.

Our valuation has been prepared based on economic, market and other conditions as they existed on, and information made available to us as of the Valuation Date only. It has come to our attention that since the Valuation Date, the outbreak of Coronavirus Disease (COVID-19) has caused significant disruption to economic activities around the world. It is uncertain how long the disruption will last and to what extent it will affect the economy and it may cause volatility and uncertainty that the input parameters and assumptions adopted in our valuation may change significantly and unexpectedly over short period of time. It should therefore be noted that any market volatility, policy, geopolitical and social changes or other circumstances after the Valuation Date may affect the value of the property after the Valuation Date.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

We hereby confirm that we have no material connection or involvement with the Group, the property or the value reported herein and that we are in a position to provide an objective and unbiased valuation.

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

Our property valuation report is enclosed herewith.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung

*MRICS, MHKIS, RPS (G.P.), RICS Registered Valuer, MCIREA
Director*

Note: Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and the PRC.

Property Valuation Report

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2020
Goodway Biotechnology Industry Base, No. 6, Zhuantang Science and Technology Economic Zone, Zhuantang Jiedao, Xihu District, Hangzhou City, Zhejiang Province, the PRC	<p>The property, Goodway Biotechnology Industry Base, is a two-phase development erected/to be erected on an irregular-shaped site with a site area of approximately 29,976.00 sq.m. The property is situated on the southwestern side of Shilongshan Street at its junction with Yunmeng Road within Zhuantang Jiedao, Xihu District, Hangzhou City.</p> <p>Phase I of the property comprises 3 blocks of 5 to 10-storey industrial/ ancillary office buildings with 1-level basement (accommodating a total of 77 car parking spaces and other facilities) with a total gross floor area of approximately 24,319.72 sq.m. (including 4,447.39 sq.m. for basement), completed in about 2013. <i>(See Note vii) below</i></p> <p>Phase II of the property is planned to be developed into 7 blocks of industrial/ancillary office buildings and an ancillary building with a total gross floor area of approximately 32,798.00 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 30 December 2056 for industrial use.</p>	As advised by the Group, as at the Valuation Date, phase I of the property was vacant and phase II of the property was a vacant site.	RMB141,200,000

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

Notes:

- i) Pursuant to the State-owned Land Use Rights Certificate No. Hang Xi Guo Yong (2008) Di 000507 issued by the People's Government of Hangzhou City on 27 October 2008, the land use rights of the property (designated as Land Lot No. 06-011-016-00007) with a site area of approximately 29,976.00 sq.m. have been granted to Goodway (Hangzhou) Biotechnology Ltd., an indirect wholly owned subsidiary of the Group, for a term expiring on 30 December 2056 for industrial use.
- ii) Pursuant to the Construction Land Use Planning Permit No. (2006) Nian Zhe Gui Yong Zheng 01060018 issued by Hangzhou City Planning Bureau on 7 April 2006, the site area of the property of approximately 34,750.00 sq.m. is approved.
- iii) Pursuant to the Grant Contract of State-owned Land Use Rights No. Hang Zi Tu He Zi (2006) 08 entered into between Zhijiang National Tourist Resort District Branch of Hangzhou State-owned Land and Resources Bureau (the "Bureau") and Goodway (Hangzhou) Biotechnology Ltd. on 30 December 2006, the Bureau agreed to grant the land use rights of the property to Goodway (Hangzhou) Biotechnology Ltd. The salient conditions as stipulated in the said contract are summarised as follows:
- | | | |
|-------------------------------|---|----------------------------------|
| (a) Location | : | Zhijiang Resort Area of Hangzhou |
| (b) Site area | : | 29,976.00 sq.m. |
| (c) Land use | : | Industrial |
| (d) Land use term | : | 50 years |
| (e) Land grant consideration | : | RMB4,136,688 |
| (f) Plot ratio | : | not exceeding 1.8 |
| (g) Site coverage | : | not exceeding 40% |
| (h) Greenery ratio | : | not exceeding 20% |
| (i) Construction height limit | : | 36 m |
- iv) Pursuant to the Construction Works Planning Permit No. Jian Zi Di 330100200900027 dated 16 January 2009, approval has been granted to Goodway (Hangzhou) Biotechnology Ltd. to develop phase I of the property with a total gross floor area of approximately 25,658.30 sq.m. (including 4,466.00 sq.m. for basement).
- v) Pursuant to the Construction Works Commencement Permit No. 330106201007050101 dated 5 July 2010, approval has been granted to Goodway (Hangzhou) Biotechnology Ltd. for construction works of phase I of the property with a total gross floor area of approximately 25,658.30 sq.m.
- vi) Pursuant to the Construction Works Planning Permit No. Jian Zi Di 330100201200283 on 16 August 2012, approval has been granted to Goodway (Hangzhou) Biotechnology Ltd. to develop phase II of the property with a total gross floor area of approximately 32,798.00 sq.m.

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

- vii) According to the Real Estate Surveying and Mapping Results Report dated 27 May 2014, the total gross floor area of phase I of the property is approximately 24,319.72 sq.m. (including 4,447.39 sq.m. for basement). Details of the total gross floor area breakdown are summarized as follows:

Building	No. of storey	Approximate Gross Floor Area (sq.m.)
No.1 Building (including basement area 4,318.43 sq.m.)	10 (with 1-level basement)	14,438.01
No.2 Building (including basement area 1.08 sq.m.)	6 (with 1-level basement)	4,250.59
No.3 Building (including basement area 127.88 sq.m.)	5 (with 1-level basement)	5,631.12
Total:		24,319.72

- viii) We have been provided with a legal opinion on the property by the PRC Legal Adviser, which contains, inter alia, the following information that has been translated from Chinese. If there are any inconsistencies, the Chinese version shall prevail:

- a) The land premium for the land use rights of the property has been fully settled;
 - b) There is no mortgage registration and no other rights restrictions of the land use rights of the property. Goodway (Hangzhou) Biotechnology Ltd is the sole legal holder of the land use rights;
 - c) The real estate ownership certificates have not yet been obtained for the phase I of the property, and will be processed after the completion of the construction works. No restrictions on rights such as mortgage, transfer, lease out, etc. were found on phase I of the property, and there was no illegal use of phase I of the property. Goodway (Hangzhou) Biotechnology Ltd. is the builder and the sole owner of phase I of the property; and
 - d) Regarding Construction Works Planning Permit No. Jian Zi Di 330100201200283, it is one of the necessary administrative licenses for the construction of phase II of the property. However, Goodway (Hangzhou) Biotechnology Ltd. did not obtain the construction work commencement permit within one year after obtaining the construction works planning permit in accordance with the provisions of the Zhejiang Province Urban and Rural Planning Regulations, nor did it apply for renewal procedures, so the construction works planning permit has expired. For the construction of phase II of the property, it is necessary to reapply for a new construction works planning permit.
- ix) In our valuation, we have adopted an average market unit rate of about RMB5,210 per sq.m. for the industrial/ancillary office buildings (exclusive of basement) and about RMB76,000 for each basement car parking space of phase I of the property, and about RMB1,012 per sq.m. for the accommodation value (AV) of phase II of the property.

In the course of our valuation of phase I of the property, we have made reference to the prevailing sale comparables in the vicinity which had characteristics comparable to the phase I of the property as at the Valuation Date. The prices of those sale comparable references as at the Valuation Date were about RMB4,830 to RMB6,070 per sq.m. for industrial/ancillary office portion and about RMB70,000 to RMB115,000 for each car parking space of phase I of the property. The market unit rates adopted by us are consistent with the said sale transaction comparables after due adjustments. Due adjustments to the unit rates have been made to reflect factors including but not limited to time, location, size and layout of phase I of the property in arriving at our opinion of value.

We have conducted our valuation of phase II of the property on vacant land basis. In the course of our valuation, we have made reference to the prevailing accommodation value (AV) of land sale comparables in the vicinity which had characteristics comparable to phase II of the property as at the Valuation Date. The accommodation value (AV) of those land sale transaction references as at the Valuation Date were about RMB680 to RMB1,520 per sq.m., the

APPENDIX II VALUATION REPORT OF HANGZHOU LAND & PROPERTY

accommodation value (AV) adopted by us is consistent with the said sale comparable references after due adjustment. Due adjustments to the unit rate have been made to reflect factors including but not limited to time, location, size and the development potential of phase II of the property in arriving at our opinion of value.

(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 underlying Shares pursuant to		Percentage of total issued Shares ⁽¹⁾
			share options	share awards	
Mr. Xu Shengheng	Beneficial owner	711,646,600	24,700,990	4,000,000	16.38%
	Interest of spouse	982,800			
Ms. Chan Wai Kay Katherine	Beneficial owner	58,290,400	24,700,990	4,000,000	2.23%
	Interest of spouse	14,103,600			
Mr. Wang Manquan	Beneficial owner	716,800	24,700,990	10,000,000	0.78%
Mr. Wang Michael Zhiyu ⁽²⁾	Beneficial owner			2,000,000	5.52%
	Interest of spouse	250,000,000			
Ms. Liu Ening ⁽²⁾	Beneficial owner	250,000,000			5.52%
	Interest of spouse			2,000,000	
Mr. Zhang Yiyang	Beneficial owner	504,000		2,000,000	5.58%
	Interest of Controlled Corporation ⁽³⁾	250,000,000			
Mr. Jia Wenzeng	Beneficial owner		3,143,762	2,000,000	0.11%
Mr. Wu Desheng	Beneficial owner		3,143,762	2,000,000	0.11%
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 options and 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 following directors of the Company were interested in the following options under the Share Option Scheme:

Name of Director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at
				Latest Practicable Date
Mr. Xu Shengheng	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Ms. Chan Wai Kay Katherine	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Wang Manquan	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Jia Wenzeng	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762

Save as disclosed above, as at Latest Practicable Date, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests

and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

(III) 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 underlying Shares pursuant to		Percentage of total issued Shares ⁽¹⁾
			share options	share awards	
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			16.38%
	Interest of spouse	711,646,600	24,700,990	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 options and 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

Save as disclosed in this circular, 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
Peak Vision Appraisals Limited	Professional valuer
(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 Sale and Purchase Framework Agreement dated 26 June 2018 entered into between HYY, a wholly-owned subsidiary of the Company, and Sichuan Changhong Air Conditioning Co., Ltd. (四川長虹空調有限公司) (“**Sichuan Changhong**”), pursuant to which, HYY and its associates intended to provide installation engineering services for air conditioning home appliance products to Sichuan Changhong and its associates, and Sichuan Changhong and its associates intended to sell air-conditioning home appliance products to HYY and its associates, for a term commencing from the 26 June 2018 to 31 December 2020. Details of which were set out in the announcement of the Company dated 26 June 2018;
- (b) The SP Framework Agreement dated 24 May 2019 entered into between the Company and CECEP, pursuant to which, CECEP and its subsidiaries conditionally agreed to purchase, and the Company and its subsidiaries conditionally agreed to provide, the products and the services for the period from the 16 September 2019 to 31 December 2021. Details of which were set out in the announcement of the Company dated 24 May 2019;
- (c) 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;

- (d) 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;
- (e) 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; and
- (f) 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 Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, 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 patents 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 47, 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 contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (d) the valuation report of Hangzhou Land & Property prepared by Peak Vision Appraisals Limited, the text of which is set out in Appendix II of this circular;
- (e) the written consent referred to in the section headed “Qualifications and Consents of Experts” 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 transactions for the disposal of Property Usage Right; and
- (h) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國地熱能產業發展集團有限公司

CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Extraordinary General Meeting**”) of China Geothermal Industry Development Group Limited (the “**Company**”) will be held on Tuesday, 10 November 2020 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 15 May 2020 (the “**Equity Transfer Agreement**”), a copy of which has been produced to the meeting and marked “A” 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 and the transactions contemplated thereunder.”

By order of the Board

China Geothermal Industry Development Group Limited

Xu Shengheng

Joint Chairman & Executive Director

Hong Kong, 15 October 2020

* *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 Yiyang 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Thursday, 5 November 2020 to Tuesday, 10 November 2020, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 4 November 2020.