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LONGITECH SMART ENERGY HOLDING LIMITED

隆基泰和智慧能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1281)

**DISCLOSEABLE AND CONNECTED TRANSACTION
INVESTMENT IN A HEAT SUPPLY COMPANY
BY WAY OF CAPITAL INJECTION**

THE CAPITAL INCREASE AGREEMENT

The Board is pleased to announce that on 21 May 2019 (after trading hours), Beijing Longguang entered into the Capital Increase Agreement with Hebei Julin and the Target Company, pursuant to which Beijing Longguang has conditionally agreed to acquire 40% equity interests of the Target Company by making capital contribution of RMB245,000,000 to the Target Company. Please refer to the main text of this announcement for the principal terms of the Capital Increase Agreement and the information of the Target Company.

The Target Company will not become a subsidiary of the Company after the Completion and therefore its financial results will not be consolidated into the financial statements of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transaction amount in relation to the Capital Injection, are more than 5% but less than 25%, the entering into of the Capital Increase Agreement and the Capital Injection contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

Further, Hebei Julin is a company owned as to 99% by Mr. Wei Shaojun who is a non-executive Director and the controlling shareholder of the Company owning as to 57.66% of the issued share capital of the Company as at the date of this announcement. Therefore, both Mr. Wei Shaojun and Hebei Julin are connected persons of the Company. As a result, the entering into the Capital Increase Agreement and the transaction contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, circular and the Independent Shareholders' approval requirements under the Listing Rules.

GENERAL

A circular containing, among other things, (i) further details about the Capital Increase Agreement and the transaction contemplated thereunder; (ii) the recommendations of the Independent Board Committee; (iii) a letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders; (iv) full text of the Valuation Report and (v) the notice convening the EGM, will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules. The Company expects that the circular will be dispatched to the Shareholders on or before 11 June 2019.

Shareholders and potential investors should note that Completion is subject to the fulfilment or waiver (as the case may be) of the Conditions Precedent and therefore may or may not occur. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

THE CAPITAL INCREASE AGREEMENT

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The principal terms and conditions of the Capital Increase Agreement are set out below:

- Date : 21 May 2019 (after trading hours)
- Parties : (i) Beijing Longguang
(ii) Hebei Julin
(iii) the Target Company
- Capital Injection : The Target Company currently has a registered capital of RMB200,000,000. Beijing Longguang has conditionally agreed to contribute an aggregate of RMB245,000,000 in cash into the Target Company. As a result, the Target Company will have a registered capital of RMB333,000,000 and a capital reserve of RMB112,000,000.
- Payment term: : The Capital Injection will be implemented in the following way:
- (i) Beijing Longguang shall pay RMB175,000,000 directly to the Target Company within fifteen (15) Business Days after the Completion; and
 - (ii) Beijing Longguang shall pay the balance of RMB70,000,000 directly to the Target Company upon written request by the Target Company according to its capital requirements and according to the articles of association of the Target Company.

- Conditions Precedent : Completion is subject to the following conditions precedent:
- (i) the Capital Increase Agreement and the transaction contemplated thereunder have been duly approved by the shareholders and/or directors (where appropriate) of each Party;
 - (ii) the Capital Increase Agreement and the transaction contemplated thereunder have been duly approved by the Independent Shareholders at the EGM;
 - (iii) the representations and warranties given by Hebei Julin and the Target Company under the Capital Increase Agreement not having been breached and remaining true and accurate in all material respects as at Completion; and
 - (iv) there is no claims brought by any third party against Hebei Julin and/or the Target Company which may restrain the Capital Injection or may have material adverse effect on the Capital Injection or may otherwise render the Capital Injection impossible or illegal from the date of the Capital Increase Agreement until the Completion.
- Completion : Completion shall take place within five (5) Business Days after the fulfilment or waiver (as the case may be) of all Conditions Precedent.
- Termination : In the event that any of the Conditions Precedent has not been fulfilled or waived (as the case may be) prior to 31 July 2019 or such a later date as may be agreed by Beijing Longguang in writing, Beijing Longguang shall have the right to terminate the Capital Increase Agreement and the transaction contemplated thereunder. Once terminated, the Capital Increase Agreement shall cease to have any effect.

Profit guarantee : Hebei Julin will provide a guarantee to Beijing Longguang that the annual net profits in the financial statements of the Target Company (as verified by Beijing Longguang) for each year during the Guaranteed Period shall not be less than the amount set opposite to that particular year as follows:

Year	Net profit	Accumulated
	target (RMB'000)	net profit target (RMB'000)
2020	12,000	12,000
2021	17,000	29,000
2022	25,000	54,000
2023	34,000	88,000
2024	43,000	131,000
2025	50,000	181,000
2026	55,000	236,000
2027	60,000	296,000
2028	64,000	360,000
2029	73,000	433,000
2030	74,000	507,000
2031	75,000	582,000

Profit compensation : The Parties agreed that during the Guaranteed Period, Hebei Julin shall compensate Beijing Longguang for the shortfall between the guaranteed profit (as stated hereinabove) and the actual net profit of the Target Company in any three-year term (commencing on 1 January 2020). Beijing Longguang shall have the right to require Hebei Julin to make compensation in one or more of the following ways: by deducting directly from Hebei Julin's entitlement in the distributable profits of the Target Company in the current year, or require Hebei Julin to compensate in cash. The aforementioned compensation (if any) shall be settled by Hebei Julin on or before 31 March of the year immediately following the relevant three-year term.

Dividends : In the case that the Target Company has a net profit in a year, subject to the condition that distribution of dividends would not affect the normal operations of the Target Company, Beijing Longguang and Hebei Julin shall discuss and determine the level of dividends for the relevant year. In any event, the Target Company shall pay dividends to Beijing Longguang of no less than 30% of Beijing Longguang's entitlement in the net profits (as set out herein after) where the interval of each dividend payment shall be no more than three years, unless otherwise agreed by Beijing Longguang and Hebei Julin.

The Parties agreed that during the period from the Completion to 31 December 2031, each of Beijing Longguang and Hebei Julin shall be entitled to such portion of the net profits of the Target Company as set out hereinafter:

- (a) if the Target Company recorded a net loss, such net loss shall be solely borne by Hebei Julin;
- (b) Beijing Longguang shall be entitled to the entire net profit if the net profit recorded is less than RMB20 million;
- (c) Beijing Longguang shall be entitled to the first RMB20 million if the net profit recorded equals to or is more than RMB20 million but less than RMB50 million and Hebei Julin shall be entitled to the balance; and
- (d) If the net profit recorded equals to or is more than RMB50 million, Beijing Longguang and Hebei Julin's entitlement shall be in proportion to their respective shareholding in the Target Company.

Repurchase : Hebei Julin shall repurchase the 40% equity interests held by Beijing Longguang in the Target Company if any of the following events occur:

- (i) actual accumulated net profits in any six (6) consecutive years during the Guaranteed Period is less than 70% of the accumulated net profits target during the same period; and
- (ii) the Target Company is unable to carry out normal business operation for any six (6) consecutive months due to major safety or environmental issue(s).

The repurchase price shall be calculated with the following formula:

$$\text{Repurchase price} = A \times (1+10\%)^N - B - C$$

where,

A is the actual aggregated amount of Capital Injection paid by Beijing Longguang;

B is the aggregated amount of dividends distributed by the Target Company to Beijing Longguang;

C is the aggregated amount of net compensation paid by Hebei Julin to Beijing Longguang; and

N is the actual number of years passed since the date of payment made by Beijing Longguang pursuant to the Capital Increase Agreement.

Beijing Longguang expects its investment in the Target Company shall achieve an annual return rate of 10%.

Hebei Julin shall complete the aforesaid repurchase within thirty (30) Business Days upon the receipt of written notice from Beijing Longguang.

- Management : After Completion, the Target Company shall have a board of directors consisting three (3) directors, of which, Beijing Longguang shall be entitled to appoint one (1) director while Hebei Julin shall be entitled to appoint two (2) directors. A director appointed by Hebei Julin shall be the chairperson and the legal representative of the Target Company. The Target Company shall also appoint such person nominated by Beijing Longguang as its chief financial officer.
- Right to acquire controlling interest : The Parties agreed that after the Completion, depending on the actual operation and financial conditions of the Target Company, the level of fulfilment of the profit guarantee and other factors, Beijing Longguang shall have the right (but not an obligation) to further increase its equity interests in the Target Company to at least 51% and become the controlling shareholder of the Target Company at any time. In the event that Beijing Longguang so decides to increase its equity interests in the Target Company, the Parties shall negotiate in good faith to determine the terms of the definitive agreement.

Consideration

The aggregated amount of RMB245,000,000 to be contributed by Beijing Longguang has been determined after arm's length negotiations among the Parties with reference to, among other things, (i) the preliminary appraised value of the Target Company as at 31 March 2019 as determined by the Valuer; (ii) the future capital requirement of the Target Company to implement its development plan; and (iii) the future development prospect of the Target Company.

A full Valuation Report on Target Company will be prepared for inclusion in the circular to be despatched to the Shareholders.

Source of fund

The aggregated amount of RMB245,000,000 for the Capital Injection to be paid by Beijing Longguang pursuant to the Capital Increase Agreement will be funded by internal resources of the Group.

Shareholding structure of the Target Company

Immediately before the Completion, the Target Company is owned as to 100% by Hebei Julin. Subsequent to the Completion, the Target Company will be owned as to 40% by Beijing Longguang and as to 60% by Hebei Julin.

The Target Company will not become a subsidiary of the Company after the Completion and therefore its financial results will not be consolidated into the financial statements of the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL INCREASE AGREEMENT

The Group is principally engaged in smart energy and public infrastructure construction businesses, with gradual expansion and diversification to other clean energy business. As mentioned in the 2017 annual report and 2018 annual report of the Company, the Group will actively focus on the investment and layout of multi-energy complementation areas including electricity, heat, and gas, and will expand and enrich other clean energy business according to industry opportunities.

Gao Bei Dian City Guang Shuo New Energy Company Limited* (高碑店市光碩能源有限公司), an indirect wholly-owned subsidiary of the Company whose principal business involves, among other things, the supply of clean and environmentally friendly energy solutions and operations management services for companies engaged in centralized heat supply business has been engaged by the Target Company to provide management service to the Target Company for the period from 1 November 2018 to 30 March 2019. Please refer to the announcement of the Company dated 8 October 2018 for further details of the management services provided to the Target Company. In this connection, the Company has acquired an in-depth knowledge of the daily operation of the Target Company as well as its financial and business conditions. Having assessed the information available, the Board believes the Target Company has the potential to further develop its central heating business and will be able to generate steady cash income for the Group.

The Board believes that by acquiring 40% equity interests in the Target Company through the Capital Injection, the Group is able to increase its market share in central heating sector within the Hebei Province of the PRC which is in line with the business strategy of the Group and will in turn benefit the Group.

In view of the above, the Directors (excluding the independent non-executive Directors who will express their views after taking into account the advice of the independent financial adviser appointed by the Company in connection with the Capital Increase Agreement) consider the terms of the Capital Increase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

Information on Hebei Julin

Hebei Julin is a limited liability company established on 29 June 2015 under PRC law and is principally engaged in the investment in urban central heating and the organization and planning of cultural activities business. As at the date of this announcement, the equity interests of Hebei Julin was indirectly owned as to 99% by Mr. Wei Shaojun, a non-executive Director and the controlling shareholder of the Company, and 1% by his daughter.

Information on the Target Company

The Target Company is a limited liability company established on 7 March 2013 under PRC law and is a licensed heat supplier which is principally engaged in production and supply of heat, design, construction and reconstruction of heating system. As at the date of this announcement, the Target Company had a registered capital of RMB200,000,000 and its entire equity interests was owned by Hebei Julin.

The Target Company is currently focusing on the provision of heating service in Gao Bei Dian City, Hebei Province, the PRC. It completed phase I of its heat supply project on 15 November 2018 and is capable to provide heating service to an aggregated area of over 6 million sq. m.. It plans to complete the phase II heat supply project by year 2031 to increase its heat supply capacity by a further 14.70 million sq. m. (the “**Phase II Project**”). The Target Company expects that it will complete the necessary infrastructure and commence the heating service to an aggregated area of 1.1 million sq. m. of the Phase II Project by the end of 2019 and will be able to commence the heating service for the rest of 13.6 million sq. m. of the Phase II Project in stages between 2020 to 2031.

The unaudited net asset value of the Target Company as at 31 March 2019 amounted to approximately RMB241.1 million.

Set out below are the unaudited net profits (before and after tax) of the Target Company for the two years ended 31 December 2017, 31 December 2018 and for three months ended 31 March 2019:

	For the year ended 31 December 2017 (unaudited) (RMB'000)	For the year ended 31 December 2018 (unaudited) (RMB'000)	For the three months ended 31 March 2019 (unaudited) (RMB'000)
Net (loss) profits before tax	(5,439)	9,841	14,099
Net (loss) profits after tax	(5,439)	8,741	10,574

Information on the Group and Beijing Longguang

The Group is principally engaged in smart energy and public infrastructure construction businesses, with gradual expansion and diversification to other clean energy business, of which the smart energy business is mainly based on the needs of industrial, commercial, residential customers and public institutions who rely on the smart energy cloud platform with independent intellectual property rights. The Group provides customers with comprehensive smart energy services based on various energy sources such as cooling, heat, electricity and gas.

Beijing Longguang is an indirectly wholly-owned subsidiary of the Company and was established on 13 July 2016 under PRC law with limited liability. Beijing Longguang is principally engaged in the investment of clean energy such as gas and heat, and provides relative technical advisory services business in the PRC.

LISTING RULES IMPLICATIONS

As one or more of the applicable ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transaction amount in relation to the Capital Injection, are more than 5% but less than 25%, the entering into of the Capital Increase Agreement and the Capital Injection contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

Further, Hebei Julin is a company owned as to 99% by Mr. Wei Shaojun who is a non-executive Director and the controlling shareholder of the Company owning as to 57.66% of the issued share capital of the Company as at the date of this announcement. Therefore, both Mr. Wei Shaojun and Hebei Julin are connected persons of the Company. As a result, the entering into the Capital Increase Agreement and the transaction contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, circular and the Independent Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 14A.36, Mr. Wei Shaojun, Mr. Wei Qiang (the son of Mr. Wei Shaojun and an executive Director and the chief executive officer of the Company) and their respective associates will be required to abstain from voting at the EGM in respect of the resolution proposed for the approval of the Capital Increase Agreement and the transaction contemplated thereunder. Save as the aforesaid, no other Shareholders will be required to abstain from voting at the EGM.

GENERAL

At the Board meeting held to approve the Capital Increase Agreement, Mr. Wei Qiang and Mr. Wei Shaojun were considered to be interested in the transaction contemplated thereunder and have abstained from voting in respect of the resolution proposed to approve the Capital Increase Agreement.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Capital Increase Agreement and the transaction contemplated thereunder.

Giraffe Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Capital Increase Agreement and the transaction contemplated thereunder.

A circular containing, among other things, (i) further details about the Capital Increase Agreement and the Capital Injection contemplated thereunder; (ii) the recommendations of the Independent Board Committee in relation to the Capital Increase Agreement and the transaction contemplated thereunder; (iii) a letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders in relation to the Capital Increase Agreement and the Capital Injection contemplated thereunder; (iv) full text of the Valuation Report and (v) the notice convening the EGM, will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules. The Company expects that the circular will be dispatched to the Shareholders on or before 11 June 2019.

Shareholders and potential investors should note that Completion is subject to the fulfilment or waiver (as the case may be) of the Conditions Precedent and therefore may or may not occur. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“associate”	has the meaning ascribed to it under the Listing Rules
“Beijing Longguang”	Beijing Longguang Energy Technology Co., Ltd.,* (北京隆光能源科技有限公司) an indirect wholly-owned subsidiary of the Company
“Board”	board of Directors
“Business Day”	any day other than Saturday, Sunday or public holidays of the PRC
“Capital Increase Agreement”	the capital increase agreement entered into among Beijing Longguang, Hebei Julin and the Target Company on 21 May 2019 (after trading hours) in relation to the Capital Injection

“Capital Injection”	the contribution by Beijing Longguang of an aggregate of RMB245,000,000 to the registered capital and capital reserve of the Target Company according to the terms and conditions of the Capital Increase Agreement
“Company”	LongiTech Smart Energy Holding Limited (隆基泰和智慧能源控股有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability, with the Shares listed on the Main Board of the Stock Exchange (stock code: 1281)
“Completion”	completion of the registration procedures with the Administration for Industry and Commerce in respect of the Capital Injection, upon which a new business license will be issued to the Target Company
“Conditions Precedent”	the conditions precedent to the Capital Increase Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the Independent Shareholders to consider, and if think fit, approve the Capital Increase Agreement and the Capital Injection contemplated thereunder
“Group”	the Company and its subsidiaries
“Guaranteed Period”	the twelve (12) consecutive years commencing on 1 January 2020 and ending on 31 December 2031
“Hebei Julin”	Hebei Julin Chuanghe Cultural Communication Limited* (河北聚鄰創和文化傳播有限公司), a company established under the PRC law and is owned indirectly by Mr. Wei Shaojun as to 99% and 1% by his daughter

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors established for the purpose of considering and advising the Independent Shareholders in respect of the Capital Increase Agreement and the Capital Injection contemplated thereunder
“Independent Shareholders”	the Shareholders other than Mr. Wei Shaojun, Mr. Wei Qiang and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	parties to the Capital Increase Agreement, and each a “Party”
“PRC”	the Peoples’ Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Gao Bei Dian City Long Chuang Central Heating Company Limited* (高碑店市隆創集中供熱有限公司), a company established under the PRC law and a wholly-owned subsidiary of Hebei Julin
“Valuation Report”	the valuation report to be issued by the Valuer in respect of 40% equity interests in the Target Company as of 31 March 2019

“Valuer”	APAC Asset Valuation and Consulting Limited, an independent valuer engaged by the Company
“%”	per cent
“sq.m.”	square meter

By order of the Board
LongiTech Smart Energy Holding Limited
Wei Qiang
Chairman

Hebei, 21 May 2019

As at the date of this announcement, the executive Directors are Mr. Wei Qiang, Mr. Yuen Chi Ping and Dr. Liu Zhengan; the non-executive Director is Mr. Wei Shaojun; and the independent non-executive Directors are Dr. Han Qinchun, Mr. Wong Yik Chung, John and Mr. Han Xiaoping.

* *for identification purpose only*