THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **LongiTech Smart Energy Holding Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

隆基泰和智慧能源
LONGITECH SMART ENERGY

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 AND NOTICE OF EGM

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

Giraffe
智富

Giraffe Capital Limited

A letter from the Independent Board Committee including its recommendations to the Independent Shareholders is set out on pages 20 to 21 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Capital Increase Agreement and the transaction contemplated thereunder is set out on pages 22 to 51 of this circular.

A notice convening the EGM of LongiTech Smart Energy Holding Limited to be held at Suite 805, 8/F., Harcourt House, 39 Gloucester Road, Wan Chai, Hong Kong on 26 June 2019 (Wednesday) at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but 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 shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

11 June 2019

CONTENTS

In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

"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"	the 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 Injecting, 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(s)"	having the meaning as ascribed thereto under the Listing Rules;
"controlling shareholder"	having the meaning as ascribed thereto under the Listing Rules;
"Director(s)"	the 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;
"Equity Interests"	40% equity interests in the Target Company;
"Guaranteed Period"	the twelve (12) consecutive years commencing on 1 January 2020 and ending on 31 December 2031;
"Guarantor"	保定光為綠色能源科技有限公司 (Baoding Lightway Green Energy Technology Co., Ltd.*), a limited liability company established in the PRC and is indirectly owned as to 69% by Mr. Wei Qiang, the son of Mr. Wei Shaojun and an executive Director and a chief executive officer of the Company;
"Group"	the Company and its subsidiaries;
"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 as to 1% by his daughter;
"Hong Kong"	Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong;
"Independent Board Committee"	an independent board committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the Capital Increase Agreement and the transaction contemplated thereunder;
"Independent Financial Adviser"	Giraffe Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Capital Increase Agreement and the transaction contemplated thereunder;

"Independent Shareholders"	Shareholders who are not required to abstain from voting at the general meeting in relation to the resolutions for approving the Capital Increase Agreement and the transactions contemplated thereunder;
"Latest Practicable Date"	11 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Parties"	parties to the Capital Increase Agreement, each one a "Party";
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company;
"Shareholder(s)"	the holder(s) of the Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Substantial Shareholder"	has the same meaning ascribed thereto under the Listing Rules;
"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 Date"	31 March 2019;
"Valuation Report"	the valuation report issued by the Valuer in relation to the valuation of Equity Interests as of the Valuation Date, full text of which is included in Appendix II of this circular;

"Valuer"	APAC Asset Valuation and Consulting Limited, the independent valuer appointed by the Company;
"%"	per cent; and
"sq. m."	square meter.

* *For identification purposes only*

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)

Executive Directors:
Mr. Wei Qiang *(Chairman)*
Mr. Yuen Chi Ping
Dr. Liu Zhengang

Non-executive Director:
Mr. Wei Shaojun

Independent Non-executive Directors:
Dr. Han Qinchun
Mr. Wong Yik Chung, John
Mr. Han Xiaoping

Registered Office:
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Principal Place of Business in Hong Kong
Suite 805, 8th Floor
Harcourt House
39 Gloucester Road, Wanchai
Hong Kong

11 June 2019

To the Shareholders,

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 21 May 2019, whereby the Board announced that on 21 May 2019, Beijing Longguang entered into the Capital Increase Agreement with Hebei Julin and the Target Company. Pursuant to the Capital Increase Agreement, Beijing Longguang has conditionally agreed to acquire the Equity Interests by making capital contribution of RMB245,000,000 to the Target Company, subject to terms and conditions as discussed below. 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.

As one or more of the applicable percentage 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 Capital Increase Agreement and the transaction 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 of the Latest Practicable Date. 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.

The purpose of this circular is to provide you with, among other things, (i) further details of the Capital Increase Agreement; (ii) the letter from the Independent Board Committee with its recommendations; (iii) a letter from Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

THE CAPITAL INCREASE AGREEMENT

Principal terms and conditions of the Capital Increase Agreement are set out as the follows:

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 its articles of association.
Conditions Precedent	:	Completion is subject to the following conditions precedent: (i) the Capital Increase Agreement and the transaction contemplated thereunder has 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 the 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 provided 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 target** *(RMB'000)*	**Accumulated 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

The net profit targets were determined by the Parties by making references to the estimated net profits of the Target Company in the Valuation Report.

Profit compensation : The Parties agreed that during the Guaranteed Period, Hebei Julin shall compensate Beijing Longguang for the shortfall between the accumulated net profit target (as stated hereinabove) and the actual net profit of the Target Company every three-year commencing on 1 January 2020. The profit compensation will be calculated at the end of each three-year term and will take into account any profit compensation previously paid by Hebei Julin (if any) so that Hebei Julin will not be making duplicated compensations in relation to the same shortfall. Beijing Longguang shall have the right at its sole discretion to require Hebei Julin to make compensation at the end of each three-year term 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. However, in the event that after a profit compensation had been made by Hebei Julin to Beijing Longguang for a particular three-year term, if the Target Company subsequently caught up with the accumulated net profit target in the following three-year term, Beijing Longguang must refund the compensation received to Hebei Julin.

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 : Beijing Longguang shall have the right to require Hebei Julin to repurchase all (but not part) of the 40% equity interests held by Beijing Longguang in the Target Company if any of the following events occurred:

(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:

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

where,
A is the aggregated amount 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 Longquang 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.

Right to acquire controlling interest	:	The Parties agreed that after the Completion, so long as Beijing Longguang holds any equity interests in the Target Company and 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.
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.

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 40% equity interest in the Target Company as at 31 March 2019 as determined by the Valuer, being RMB263 million; (ii) the future capital requirement of the Target Company to implement its development plan; and (iii) the future development prospect of the Target Company.

The Board has conducted due diligence exercise to ascertain the operation and financial conditions of the Target Company. The decision to enter into the Capital Increase Agreement by the Board is indifferent to the profit guarantee and compensation. The Board considers that the profit guarantee and compensation are included in the Capital Increase Agreement just to provide additional protection to the Company's investment.

Valuation methodology and assumptions

The valuation of the Equity Interests prepared by the Valuer, for which the income approach has been used, constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules, and accordingly, the requirements under Rule 14.62 of the Listing Rules are applicable to the Capital Injection.

The Valuation Report has been reviewed by the Board to assist the determination of the consideration. The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) are of the view that such valuation of the Equity Interests has been prepared after due and careful enquiry.

As required under Rule 14.62(1) of the Listing Rules, details of the principal assumptions upon which the Valuation Report is based are set out below:

- We have assumed that the future operating revenue and expenditure of the Target Company will be in accordance with the projection provided by the Target Company;

- The valuation result is substantially dependent on the profit and cash flows forecast provided by the Target Company. While we have briefly discussed with the Target Company the assumptions undertaken in the forecast, the Target Company is ultimately responsible for these assumptions. It is presumed that the Target Company has exercised the necessary due-diligence on profit and cash flow forecast and it is believed by the Target Company that the Target Company can achieve the projected results;

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

- There will be no major changes in the current taxation law in the areas in which the company conducting their business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

- The Target Company will retain their key management and technical personnel to maintain their ongoing operations;

- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

- The company will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- The business is unaffected by any statutory notice and that operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

- The business is not subject to any unusual or onerous restrictions or encumbrances; and

- The potential bad debt of the Target Company will not materially affect their business operations.

The Company has engaged the reporting accountant, SHINEWING (HK) CPA Limited ("**Shinewing**"), to review the arithmetical calculations of the discounted future estimated cash flows and the accounting policies for the profit forecast upon which the valuation in respect of the appraisal of the fair value of the Equity Interests as at the Valuation Date is based. The Independent Financial Adviser has discussed the profit forecast with the Company. The letter from Shinewing and the letter from the Board for the purpose of Rule 14.62 of the Listing Rules are included in Appendix III this circular.

The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider that the valuation of the Equity Interests as at the Valuation Date is fair and reasonable.

Please refer to Appendix II of this circular for the Valuation Report.

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.

In the event that Beijing Longguang decided to exercise its rights under the Capital Increase Agreement to (i) require Hebei Julin to repurchase all its equity interests in the Target Company; or (ii) acquire further equity interests in the Target Company, the Company will comply with the reporting, announcement and shareholders' approval (where necessary) requirements under the Listing Rules.

Additional measures to protect the Group's interests

The Company has taken the following measures to ensure the due performance by Hebei Julin of its compensation obligations under the profit guarantee:

On 11 June 2019, the Guarantor executed a deed of guarantee in favour of Beijing Longguang, pursuant to which, the Guarantor agreed (a) to provide irrevocable guarantee against Hebei Julin's obligations under the Capital Increase Agreement; (b) not to make any distributions in any form to its shareholders during the Guaranteed Period; and (c) to provide its audited financial statements for each year in the Guaranteed Period to Beijing Longguang within six months after the end of the relevant financial year under review. As of 31 December 2018, the Guarantor has an audited net asset value of approximately RMB595 million.

The Company will comply with the disclosure requirements under Rule 14A.63 of the Listing Rules in the event that the Target Company failed to achieve the profit guarantee.

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 that 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責任公司), 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 the Equity Interests 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.

The Board considers the "trade war" between the United States and the PRC may only affect those companies engaged in international trading business. As the business of the Target Company is, similar to electricity and water supply, a utility service which depends principally on domestic demand, the Board considers that the "trade war" has insignificant impact on the heat supply business of the Target Company.

INFORMATION ON THE PARTIES

Information on Hebei Julin

Hebei Julin is a limited liability company established on 29 June 2015 under the PRC law and is principally engaged in the investment of urban central heating and the organization and planning of cultural activities business. As at the Latest Practicable Date, 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 the 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 Latest Practicable Date, 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 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 14.7 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 Phase II Project by 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, relying 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 the 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 IMPLICATION

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 transaction 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 Latest Practicable Date. 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 and any Shareholder with a material interest in the Capital Increase Agreement 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.

EGM will be convened at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Capital Increase Agreement and the transaction contemplated thereunder.

EGM

A notice convening the EGM to be held at Suite 805, 8/F., Harcourt House, 39 Gloucester Road, Wan Chai, Hong Kong on 26 June 2019 (Wednesday) at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular for the purpose of considering and, if thought fit, passing the resolutions in relation to the transaction contemplated under the Capital Increase Agreement.

A form of proxy for the EGM is enclosed herewith. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's Hong Kong share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

In accordance with the requirements of the Listing Rules, all votes to be taken at the EGM will be by poll. Mr. Wei Shaojun, Mr. Wei Qiang, and any of their respective associates will abstain from voting at the EGM in respect of the resolutions relating to the transaction contemplated under the Capital Increase Agreement.

In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar and transfer office, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 June 2019.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Capital Increase Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this connection.

The text of the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 51 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 of this circular.

The Directors (including the independent non-executive Directors) consider that the terms of the Capital Increase Agreement are fair and reasonable and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions proposed at the EGM.

FURTHER INFORMATION

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

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

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the Capital Increase Agreement and the transaction contemplated thereunder.

隆基泰和智慧能源
LONGITECH SMART ENERGY

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)

11 June 2019

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company to the Shareholders dated 11 June 2019 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Capital Increase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Giraffe Capital Limited (the "**Independent Financial Adviser**") as set out on pages 22 to 51 of the Circular and the letter from the Board as set out on pages 5 to 19 of the Circular.

Having considered the terms of the Capital Increase Agreement, the situation of the Company, the factors and reasons considered by the Independent Financial Adviser and its opinion as stated in its letter of advice, we consider that the terms of the Agreement and the transactions contemplated thereunder are being carried out on normal commercial terms and in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable so far as the Independent Shareholders are concerned and the transactions are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution proposed to approve the Capital Increase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
LongiTech Smart Energy Holding Limited
Dr. Han Qinchun
Mr. Wong Yik Chung, John
Mr. Han Xiaoping
Independent Non-executive Directors

The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

Giraffe
智富

11 June 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company (the "**Independent Shareholders**") in respect of the Capital Injection, details of which are set out in the letter from the Board (the "**Letter from the Board**") in the circular issued by the Company dated 11 June 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 21 May 2019, 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 (the "**Consideration**") to the Target Company. As disclosed in the Letter from the Board, the Consideration was determined after arm's length negotiations among the Parties with reference to, among others, (i) the preliminary appraised value of the 40% equity interest in the Target Company as at 31 March 2019 as determined by the Valuer, being RMB263 million; (ii) the future capital requirement of the Target Company to implement its development plan; and (iii) the future development prospect of the Target Company. As one or more of the applicable percentage 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 Capital Increase Agreement and the transaction 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.

As 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, 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.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Capital Increase Agreement and the transaction contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Capital Injection is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Capital Increase Agreement and the transactions contemplated thereunder at the EGM. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in respect of a major and connected transaction as detailed in the Company's circular dated 14 September 2018. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, to give independent advice on the terms of the Capital Increase Agreement and transaction contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the announcement of the Company dated 21 May 2019 in relation to the Capital Increase Agreement and transaction contemplated thereunder, the valuation report (the "**Valuation Report**") prepared by APAC Asset Valuation and Consulting Limited, an independent professional valuer (the "**Valuer**"), the annual report of the Company for the year ended 31 December 2018 (the "**Annual Report 2018**"), the legal due diligence report on the Target Company prepared by Beijing Dentons Law Offices, LLP (Shenzhen), the legal adviser as to PRC law (the "**PRC Legal Adviser**"), and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Company. We have also enquired with the Valuer in respect of the valuation of the appraised value of 40% equity interests of the shareholders of the Target Company (the "**Appraised Value**"). Save and except for the review of the Valuation Report, we have not made any independent evaluation or appraisal of the assets and liabilities of the Target Company and we have not been furnished with any such evaluation or appraisal. Since we are not experts in the valuation of businesses or companies, we have relied solely on the Valuation Report for the Appraised Value.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors were true and accurate the time when they are made and continue to be true up the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, Beijing Longguang, Hebei Julin, the Target Company or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Capital Injection. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Capital Injection, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Capital Injection, we have taken into consideration the following principal factors and reasons:

1. Information on the Group and Beijing Longguang

1.1 Business of the Group and Beijing Longguang

As disclosed in the Letter from the Board, 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, relying 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 the 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.

1.2 Financial performance of the Group

Set out below is a summarized consolidated financial information of the Group as extracted from the Annual Report 2018:

	For the year ended 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue		
Continuing operations:		
– Smart energy business	529,258	655,948
– Public infrastructure construction business	179,235	241,954
	708,493	897,902
Discontinued operations:		
– Sales of doors and windows and provision of construction and engineering services	–	15,823
	708,493	**913,725**
Gross profit	**243,831**	**260,480**
Profit for the year	**108,501**	**135,488**
Profit attributable to owners of the Company	**107,720**	**135,197**

The Group generated revenue from two continuing operating segments, being (i) smart energy business; and (ii) public infrastructure construction business. The smart energy business has replaced the public infrastructure construction business and became the key source of revenue and profit of the Group since the year ended 31 December 2017 (the "**FY2017**").

As shown from the above table and stated in the Annual Report 2018, the Group's revenue and profit attributable to owners of the Company for the year ended 31 December 2018 (the "**FY2018**") decreased by approximately 21.1% and 20.3%, respectively, as compared to that for FY2017, primarily due to the decrease in revenue from (i) sales of home photovoltaic system under the impact of the national 531 Policy, representing the announcement of the national macroeconomic control policy on solar power plants (Fa Gai Neng Yuan [2018] No. 823) on 31 May 2018, which stipulated that the construction plan of ordinary solar power plants in China would be suspended for 2018; and (ii) public infrastructure construction business due to the impact on the project development progress by the local government's general plan on the project location.

1.3 Business outlook

According to National Bureau of Statistics of China, the urbanization rate of Hebei Province of the PRC has increased from approximately 46.8% in 2012 to 55.0% in 2017. The rising urbanization rate in Hebei Province leads to increasing demand for heating, which drives the development of municipal heating market. Growing municipal heating demand is the fundamental driver of the construction, the repair and maintenance of heating facilities business.

According to the Three-year Action Plan for Winning the Blue Sky Defense War (《打贏藍天保衛戰三年行動計劃》) issued in 2018 by the State Council of the PRC, the PRC government calls for, among others, green development, rectifying the energy structure to build a clean, efficient energy system and ensuring that the people in the northern regions have safe heating system for the winter, which also facilitate the speeding up of heating pipelines construction and improving the municipal heating infrastructure. According to the National 13th Five-Year Plan for Urban Municipal Infrastructure Construction (《全國城市市政基礎設施規劃建設"十三五"規劃》) published in 2017 by National Development and Reform Commission and Ministry of Housing and Urban-Rural Development of the People's Republic of China, the PRC government proposed to improve the heating quality and the municipal infrastructure. These favorable policies will stimulate the demand for the high-quality heating infrastructure and drive the heating facility construction market.

2. Information on Hebei Julin

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

3. Information on the Target Company

3.1 Business of the Target Company

The Target Company is a limited liability company established on 7 March 2013 under the 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. The Target Company had a registered capital of RMB200,000,000 and its entire equity interests was owned by Hebei Julin.

As disclosed in the Letter from the Board, the Target Company is currently focusing on provision of heating service in Gao Bei Dian City, Hebei Province of 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 14.7 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 Phase II Project by stages between 2020 to 2031.

3.2 Financial performance of the Target Company

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

As shown from the above table, the profits after tax of the Target Company increased significantly from FY2017 to FY2018. As advised by the management of the Company, such increase was mainly due to the expansion in heating business of the Target Company.

4. Reasons for and benefits of entering into the Capital Increase Agreement

As disclosed in the Letter from the Board, 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 Annual Report 2018, 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責任公司）, 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. 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. As such, we understand from the management of the Company that it is optimistic that 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. As discussed with the management of the Company, the Company considers that by acquiring the Equity Interests 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.

* *For identification purpose*

In order to assess the growth prospect of the heating business of the Target Company, we have, among others, reviewed the Urban and Rural Master Plan of Gao Bei Dian City 2013-2030*（高碑店市城鄉總體規劃 2013-2030年）adopted by Gao Bei Dian City Planning Bureau*（高碑店市規劃局）in April 2013 (the "**Development Plan of Gao Bei Dian City**") and noted that the number of local urban residents is estimated to increase from approximately 380,000 in 2015 to approximately 635,000 in 2030. We have also reviewed the minutes by the Office of the Gao Bei Dian City People's Government*（高碑店城人民政府辦公室）in September 2018 and February 2019 in relation to pricing policy on local heat supply, and noted that the unit service fee of heat supply in Gao Bei Dian City has been increased from RMB20 per sq. m. to RMB21 per sq. m. since 2019.

Furthermore, we have obtained the Gao Bei Dian City's central heating concession agreement*（高碑店市集中供熱特許經營協議）entered into between Gao Bei Dian City People's Government*（高碑店城人民政府）and the Target Company on 18 November 2015 (the "**Concession Agreement**"), and noted that Gao Bei Dian City Government granted the exclusive operating right to the Target Company to provide heat supply services to urban and suburban areas of Gao Bei Dian City from November 2014 to November 2044.

We also understand from the management of the Company that they have performed certain due diligence on the Target Company, including, among others, (i) engaged the PRC Legal Adviser to conduct legal due diligence; (ii) reviewed the legal due diligence report on the Target Company prepared by the PRC Legal Adviser; and (iii) reviewed the Valuation Report and enquired with the Valuer on the methodology, basis and assumptions adopted therein. We have obtained and reviewed the legal due diligence report and discussed the due diligence results with the PRC Legal Adviser.

Having considered that (i) the growing urbanization rate in Hebei Province which drives the demand for heating; (ii) the estimated increase in number of urban residents in Gao Bei Dian City; (iii) the unit service fee of heat supply in Gao Bei Dian City has been increased from RMB20 per sq. m. to RMB21 per sq. m. since 2019; (iv) the Target Company was granted exclusive operating right to provide heat supply services to urban and suburban areas of Gao Bei Dian City from November 2014 to November 2044; and (v) the growth prospect of the heating business of the Target Company, we are of the view that the Capital Injection is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

5. Principal terms of the Capital Increase Agreement

Details of the Capital Increase Agreement are set out in the Letter from the Board. The principal terms and conditions of the Capital Increase Agreement are as follows:

5.1 Parties

(i) Beijing Longguang;

(ii) Hebei Julin; and

(iii) the Target Company.

5.2 Capital Injection

The Target Company has a registered capital of RMB200,000,000 before the Capital Injection. 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.

5.3 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 its articles of association.

5.4 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 the 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.

5.5 Completion

Completion shall take place within five (5) Business Days after the fulfilment or waiver (as the case may be) of all Conditions Precedent.

5.6 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.

5.7 Profit Guarantee

Hebei Julin provided 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	**Profit target**	**Accumulated profit target**
	(RMB'000)	*(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

As stated in the Letter from the Board, the above profit targets were determined by making references to the estimated net profits of the Target Company in the Valuation Report.

As advised by the management of the Company, the majority of heat supply service of the Target Company would be provided during the winter season, which is from November to March of the coming year on a regular basis. In order to assess the reasonableness of the projected profit target for the period from 2020 to 2031, we have (i) considered the unaudited net profits after tax for the three months ended 31 March 2019 amounted to approximately RMB10.6 million; (ii) assumed the demand for heating and therefore the estimated income from heat supply by the Target Company for November and December 2019 is consistent with and proportional to that for the three months ended 31 March 2019; (iii) understood with the management of the Company that an assumption of the annual growth rate of 2.5% of the unit service fee of heat supply is made over the period from 2020 to 2031, considering that the unit service fee of heat supply in Gao Bei Dian City has been increased from RMB20 per sq. m. in 2018 to RMB21 per sq. m. in 2019, representing an increase of approximately 5.0%; (iv) reviewed and discussed with the management of the Company the development plan of Phase II Project of the Target Company which would gradually increase the service area from approximately 1.1 million sq. m. in 2020 to approximately 14.7 million sq. m. by 2036 and in order to assess the fairness and reasonableness of the estimated progress of the development plan of Phase II Project, we have reviewed the historical development of Phase I Project from 2014 to 2018 and noted that the projected year-on-year expansion of service area in terms of square meters during the Guaranteed Period (with an increase of the service area ranged from approximately 0.5 million sq. m. to 1.2 million sq. m. per year) was within the average historical expansion of service area during Phase I, and (v) reviewed the calculation of the profit target and the financial projections of the Target Company provided by the Company and adopted by the Valuer in preparing the Valuation Report. We have compared the profit target for each year during the Guaranteed Period with the respective estimated net profits for the same year adopted in the Valuation Report and noted that the profit targets were taken with reference to the respective estimated net profits rounded up or down to the nearest million units with no significant difference between both values. Based on the above, we concur with the Directors that the profit targets for the period from 2020 to 2031 have been estimated after due and careful enquiry.

5.8 Profit compensation

The Parties agreed that during the Guaranteed Period, Hebei Julin shall compensate Beijing Longguang for the shortfall between the accumulated net profit target (as stated hereinabove) and the actual net profit of the Target Company every three-year commencing on 1 January 2020. The profit compensation will be calculated at the end of each three-year term and will take into account any profit compensation previously paid by Hebei Julin (if any) so that Hebei Julin will not be making duplicated compensations in relation to the same shortfall.

Beijing Longguang shall have the right at its sole discretion to require Hebei Julin to make compensation at the end of each three-year term 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. However, in the event that after a profit compensation had been made by Hebei Julin to Beijing Longguang for a particular three-year term, if the Target Company subsequently caught up with the accumulated net profit target in the following three-year term, Beijing Longguang must refund the compensation received to Hebei Julin.

We consider that the profit compensation based on a three-year term rather than on each year is fair and reasonable because it would provide a longer coverage under the profit compensation which would even out any material fluctuation resulting from any unforeseeable circumstances such as government pricing policies for heat supply, fluctuation in population growth of Gao Bei Dian City, delay in construction of heating facility due to weather conditions or shortage of materials, and abnormal climate change that may take place in any single year during the Guaranteed Period. As such, we are of the view that such arrangement is fair and reasonable and is in the interests of the Company.

As disclosed in the Letter from the Board, the Guarantor executed a deed of guarantee in favour of Beijing Longguang to provide irrevocable guarantee against Hebei Julin's obligations under the Capital Increase Agreement. As the Guarantor has an audited net asset value of approximately RMB595 million as of 31 December 2018, the Board considers that with the aforementioned guarantee, Hebei Julin will be financially capable to honor its compensation obligation and other obligations under the Capital Increase Agreement.

We also understand from the management of the Company that save as (i) the guarantee provided under a loan facility of approximately RMB230 million granted by Bank of China (the "**BOC Facility**") to Lightway Green Energy Technology Co., Ltd.(光為綠色能源科技有限公司)("**Lightway Green Energy**", the holding company of the Guarantor) and (ii) the guarantee provided under a loan facility of approximately RMB245 million granted by China Cinda Asset Management Co., Ltd. (the "**Cinda Facility**") to Lightway Green Energy, the Guarantor has not provided any guarantee to other parties, or any other commitment, or any claim against them for financial compensation, which would cause the Guarantor a substantial financial outlay. The BOC Facility and the Cinda Facility will have their respective maturity in January 2020 and November 2020. We are also confirmed by the management of the Company that the shareholding interests of each of the Guarantor and Lightway Green Energy has not been pledged by Mr. Wei Qiang or otherwise subject to any material encumbrances.

As such, we have obtained and reviewed (i) the audited report of the Guarantor for the year ended 31 December 2018; (ii) the BOC Facility; and (iii) the Cinda Facility. Considering that (i) after subtraction of BOC Facility of approximately RMB230 million and the Cinda Facility of approximately RMB245 million, the audited net asset value of the Guarantor as of 31 December 2018 of RMB595 million would be approximately RMB120 million, which would still be larger than the profit target to be guaranteed for 2020 of RMB12 million; (ii) after the BOC Facility and the Cinda Facility expire in 2020, the audited net asset value of the Guarantor as of 31 December 2018 of approximately RMB595 million is larger than the accumulated profit target by 2031 of RMB582 million; and (iii) that the shareholding interests of each of the Guarantor and Lightway Green Energy had not been pledged by Mr. Wei Qiang or otherwise subject to any material encumbrances, nothing has come to our attention which may impact our assessment of the financial capability of the Guarantor to honour the deed of guarantee and we concur with the Directors' view that the Guarantor has sufficient financial capability to honour the deed of guarantee.

As discussed and advised with the management of the Company, Beijing Longguang has taken or will take the following measures to evaluate the financial capability of the Guarantor and safeguard its legal right over the assets of the Guarantor upon exercise of the deed of guarantee if necessary:

(a) reviewed the Guarantor's latest audited financial statements;

(b) retrieved a credit report on the Guarantor from the Credit Reference Center of The People's Bank of China showing the details of liabilities and commitments of the Guarantor;

(c) conducted search against the Guarantor and Lightway Green Energy within the National Enterprise Credit Information Publicity System which revealed that there is no pledge registered against shareholding interests of the Guarantor and Lightway Green Energy; and

(d) Beijing Longguang will conduct annual review on the financial conditions of the Guarantor to monitor the changes on its assets and liabilities in order to ascertain that the Guarantor has and will continue to have the financial capability to honour the deed of guarantee.

In addition, as stated in the Letter from the Board, the Guarantor undertakes that it will not make any distribution in any form to its shareholders during the Guaranteed Period and agrees to provide its audited financial statements to Beijing Longguang annually for its review and assessment. We have reviewed the relevant undertaking by the Guarantor.

We understand from the management of the Company that the Directors decision to invest in the Target Company is based on the Group's strategy to develop and increase its market share in central heating sector within the Hebei Province and is not dependent on the profit guarantee arrangement. However, we consider that (i) the above profit guarantee arrangement by Hebei Julin can act as a quantitative and measurable basis of the estimated financial performance of the Target Company during the Guarantee Period; and (ii) the above deed of guarantee by the Guarantor can act as an additional confidence that Hebei Julin will have the financial ability to honour the profit compensation.

5.9 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.

In order to assess the fairness and reasonableness of the profit distribution arrangement, we have taken into consideration of the dividend payout ratios of the comparable companies, on best-effort and exhaustive bases, based on the selection criteria that: (i) the selected companies are principally engaged in the business, or have significant business divisions in relation to the provision of heat supply services (with a significant portion (over 40% of total revenue) of revenue generated from such services); (ii) their business operations were based in the PRC; (iii) the selected company's information must be publicly available; and (iv) they are publicly listed for at least one financial year, etc. We consider the selection of the comparable companies for our analysis on dividend payout ratios are appropriate because the aforementioned selection criteria allowed us to select the comparable companies which are exposed to similar extent of macro-economic factors and industrial outlook as to the Target Company. Set out below is our analysis on dividend payout ratios of the comparable companies:

Name of company	**Principal business**	**Dividend payout ratio** *(Note 1)*
China Geothermal Industry Development Group Ltd *(8128.HK)*	Principally engaged in the shallow ground source energy related business	N/A *(Note 2)*
Beijing Huayuanyitong Thermal Technology Co Ltd *(002893.CH)*	Principally engaged in thermal supply, energy saving technology service	57.6%
Luenmei Quantum Co Ltd *(600167.CH)*	Principally engaged in clean heating business	20.0%
Ningbo Thermal Power Co Ltd *(600982.CH)*	Principally engaged in production of electricity, heat, ash and its consulting services; heat supply	31.9%
Zhejiang Fuchunjiang Environmental Thermoelectric Co Ltd *(002479.CH)*	Principally engaged in solid waste (sludge, garbage) co-processing and energy saving and environmental protection business	35.7%
Guangzhou Devotion Thermal Technology Co Ltd *(300335.CH)*	Principally engaged in the downstream of the natural gas industry chain (related equipment and operation service industry).	44.9%
Harbin Hatou Investment Co Ltd *(600864.CH)*	Principally engaged in thermoelectric business and securities business	N/A *(Note 2)*

Name of company	Principal business	Dividend payout ratio *(Note 1)*
Shenyang Huitian Thermal Power Co Ltd *(000692.CH)*	Principally engaged in providing heating and engineering services to residents and non-resident users	0.0%
SPIC Dongfang New Energy Corp *(000958.CH)*	Principally engaged in clean energy power generation and cogeneration business	39.6%
Dalian Thermal Power Co Ltd *(600719.CH)*	Principally engaged in combined heat and power, central heating	74.7%
	Minimum:	0.0%
	Maximum:	74.7%
	Average:	38.1%

Notes:

1. The dividend payout ratio is calculated by dividing the dividends declared by the Comparable Companies for the latest financial year by their respective profit after taxation attributable to owners of the company for the same financial year.

2. These companies recorded a loss for the latest financial year.

As illustrated in the above table, the dividend payout ratio of the Target Company of at least 30.0% falls within the range of dividend ratios of the Comparable Companies. As such, we concur with the Directors' view that the profit distribution arrangement is fair and reasonable.

As additional cash inflows will be distributed to the Group by the means of regular dividends by the Target Company, we consider that the above arrangement is favorable to the Company as a minority shareholder of the Target Company.

5.10 Repurchase

Beijing Longguang shall have the right to require Hebei Julin to repurchase all (but not part) of the 40% equity interests held by Beijing Longguang in the Target Company if any of the following events occurred:

(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:

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

where,

A is the aggregated amount 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 Longquang 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.

In order to assess the fairness and reasonableness of setting the annual return rate at 10% in determining the Repurchase Price, we have compared such annual return rate with the weighted average cost of capital (the "**WACC**") of the Company, which represents the minimum rate of return at which a company produces value for its investors by generating a return higher than its cost of capital. As advised by the Valuer, the weighted average cost of capital of the Company is approximately 9.0%. As the annual return rate of 10% achievable by the Company under the Repurchase

Price is higher than its WACC of approximately 9.0%, we concur with the Directors' view that it is fair and reasonable and is in the interests of the Company and its independent shareholders as a whole.

We are also advised by the management of the Company that the right to dispose of the 40% equity interest to Hebei Julin (the "**Repurchase Right**") will be recognized as a financial asset and the Group does not expect material financial impact in its financial statement arising from the Repurchase Right. We consider the Repurchase Right can provide protection to the Company's investment to a certain extent from any unforeseeable events that might pose material adverse impacts on the performance on the Target Company.

5.11 Right to acquire controlling interest

The Parties agreed that after the Completion, so long as Beijing Longguang holds any equity interests in the Target Company and 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.

As disclosed in the Letter from the Board, in the event that Beijing Longguang decided to exercise its rights under the Capital Increase Agreement to (i) require Hebei Julin to repurchase all its equity interests in the Target Company; or (ii) acquire further equity interests in the Target Company, the Company will comply with the reporting, announcement and shareholders' approval (where necessary) requirements under the Listing Rules.

We consider that the above arrangement is favorable to the Company as it can allow the Company to have flexibility and discretion to acquire controlling interest in the Target Company and to consolidate the financial results into the financial statements of the Company.

5.12 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.

6. Assessment of the Consideration

As disclosed in the Letter from the Board, the Consideration was determined after arm's length negotiations among the Parties with reference to, among others, (i) the preliminary appraised value of the 40% equity interest in the Target Company as at 31 March 2019 as determined by the Valuer, being RMB263 million; (ii) the future capital requirement of the Target Company to implement its development plan; and (iii) the future development prospect of the Target Company.

In assessing whether the Consideration is fair and reasonable, we have obtained and reviewed the Valuation Report prepared by the Valuer. In addition, we have obtained and reviewed the calculation spreadsheet of the financial projections underlying the Valuation Report prepared by the Valuer. We have also reviewed and enquired with the Valuer (i) qualification and experience of the Valuer in relation to the preparation of the Valuation Report; (ii) the key assumptions; and (iii) the steps and due diligence measures taken by the Valuer for conducting the valuation. Furthermore, we have reviewed the terms of engagement of the Valuer and noted that the scope of work is appropriate to the valuation. The Valuer has also confirmed that they are independent to the Beijing Longguang, the Hebei Julin, the Target Company and their respective associates.

6.1 Methodology

We have further reviewed and enquired into the Valuer on the methodology and the key assumptions adopted in the Valuation Report. In performing the valuation of the Target Company, the Valuer considered three valuation approaches, namely the cost approach, market approach and income approach. We concur with the Valuer that the cost approach is inappropriate for the valuation of the Target Company, since this approach is generally not applicable to ongoing operating business like the Target Company and it ignores the economic benefits of ownership of the business. We are advised by the Valuer that the market approach is inappropriate for the valuation of the Target Company because the Target Company is aggressively expanding at the present stage of business, while the comparable listed companies are generally mature companies not in their early stages of development. As the Concession Agreement would expire by November 2044, and it is uncertain whether the agreement can be renewed or extended, it is assumed for the sake of prudence that profits and cash flows from the Target Company may not continue after November 2044. On the other hand, the implicit assumption of the market approach is that companies would continue to operate perpetually. Therefore, the market approach is not applicable to the Target Company. We concur with the Valuer that income approach is the most appropriate approach for the valuation of the Target Company because financial projections can be reasonably derived by the management of the Company. These financial projections include different streams of revenue, costs of revenue, operating expenses, administrative expenses, working capital projection and the expected capital expenditure of the Target Company over the forecast period. Therefore, the income approach can provide a more accurate representation of the fair value of the equities of the Target Company.

6.2 Determination of discount rate

We also understand from the Valuer that the discount rate applied to the projected income of the Target Company is also a key factor which affects the determination of the Appraised Value. We note that the Valuer has used the WACC to derive the discount rate. In determining the WACC, the Valuer has taken into account a number of factors including (i) weight of equity in total capital; (ii) weight of debt in total capital; (iii) cost of equity; (iv) cost of debt; and (v) tax rate. We further note that the Valuer has used the Capital Assets Pricing Model to calculate the cost of equity. We understand that the Capital Assets Pricing Model technique is widely accepted in the investment and financial analysis communities for the purpose of calculating a company's cost of equity, which the Valuer has considered a number of factors including (i) risk free rate; (ii) beta; (iii) equity risk premium; and (iv) company size premium.

In determining the risk free rate, we noted that the Valuer has adopted the 10-year China government bond yield of 3.07% for the applicable risk-free rate of the Target Company because the valuation of the Target Company considers an average cash flow duration of approximately 12 years. In order to calculate the duration, we understand from the Valuer that (i) the meaning of duration in finance refers to the weighted average time until all projected cash flows are received by the investors; and (ii) the exclusive operating right to provide heat supply services to urban and suburban areas of Gao Bei Dian City obtained by the Target Company will be expired by November 2044 and the management of the Company could not affirm whether it would be renewed thereafter with certainty.

The Valuer selected a group of comparable companies (the "**Comparable Companies**") to compute beta and determine cost of equity. We have discussed with the Valuer the selection criteria of such Comparable Companies and reviewed the scope of business of the Comparable Companies and noted that the companies, which are engaged in heat supply and/or utilities services (with a significant portion of revenue generated from such services) and exposed to similar extent of macro-economic risks as to the Target Company, were selected as the Comparable Companies. We further understand from the Valuer that beta is a measure of systematic risk and is expressed as a function of the relationship between the excess return on an individual security and the return on the market as measured by a broad index. We have also performed our own search for the Comparable Companies based on the selection criteria adopted by the Valuer and obtained the same results of Comparable Companies as selected by the Valuer. As such, we are of the view that (i) the selection criteria are fair and reasonable; and (ii) the list of the Comparable Companies is exhaustive.

Given that the operation location of the Target Company is in China, we concur with the Valuer that it is fair and reasonable to adopt the equity risk premium of China market as the equity risk premium of the Target Company. We are further advised by the Valuer that the size premium for companies in the United States is adopted in the Valuation Report because based on the professional judgement and experience of the Valuer, the size premium studies performed on companies in the United States are more reliable in the field of valuation practice. We have also reviewed circulars of transactions conducted by companies listed on the Stock Exchange over the past two year which (i) contained valuation reports prepared by independent valuers; and (ii) involved calculation of WACC and size premium, and we noted that the study of companies in the United States is commonly adopted in the determination of size premium.

Furthermore, we understand from the Valuer that the cost of debt of the Target Company was determined with reference to the People's Bank of China (the "**PBOC**") over 5-year lending rate of 4.90%. In order to assess the reasonableness of the rate of the cost of debt adopted by the Valuer, we have discussed with the Valuer to understand that the PBOC over 5-year lending rate is adopted because it is (i) the longest available bank lending benchmark rate in the PRC; and (ii) the long-term expected borrowing rate that the Target Company would be able to receive for its debt financing on a company level. Under the corporate tax rate of 25% in China, the post-tax cost of debt is determined to be 3.68%. As such, we concur with the Valuer that the adopted rate of cost of debt for the Target Company is reasonable.

6.3 Discount for lack of marketability

Since the shares of the Target Company are not publicly traded, a discount for lack of marketability of 15.8% was applied in the valuation to discount for lack of ability of converting shares of Target Company into immediate cash. The Valuer considered a discount for lack of marketability of 15.8% was appropriate for the valuation of the Target Company, having done various research studies conducted on the discount for lack of marketability in developed overseas markets, which represent mature markets with well-developed economy and financial markets, and a well-developed regulatory and legal system. This is the median discount of 744 transactions according to the 2018 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability. We have reviewed the relevant studies and noted that the discount for lack of marketability of was approximately 15.8%. Given the similarity in the characteristics of lack of marketability of the shares of the Target Company and the stocks under the study in terms of the liquidity of shares, we consider that the average discount rate of 15.8% as set out in the study is a valid reference for determining the lack of marketability discount for the shares of the Target Company and the discount for lack of marketability applied to the valuation of the Target Company is fair and reasonable. We have also reviewed circulars of transactions conducted by companies listed on the Stock Exchange on best-effort and exhaustive bases over the past two year which (i) the nature of transactions involved acquisition of or investment in equity interest of the target companies which are not publicly traded; (ii) contained valuation reports prepared by independent valuers; and (iii) involved discount for lack of marketability, and we noted that Stout Restricted Stock Studies is adopted in approximately one fourth of such circulars in the determination of discount for lack of marketability.

6.4 Discount for lack of control

We understand from the Valuer that 10% of discount for lack of control was applied in the valuation as 40% equity of the Target Company represents a minority stake with a lack of control, though with significant influence, over the operations of the company's business. As discussed with the Valuer, the discount for lack of control was determined based on a number of empirical studies including the Control Premium Study, 2nd Quarter 2018 and the ownership characteristics of the subject equity. We have also reviewed circulars of transactions conducted by companies listed on the Stock Exchange on best-effort and exhaustive bases over the past two year which (i) the nature of transactions involved acquisition of or investment in minority equity interest of the target companies; (ii) contained valuation reports prepared by independent valuers; and (iii) involved control premium and/or discount for lack of control, and we noted that the Control Premium Study is adopted in majority of such circulars in the determination of the issue of control premium.

6.5 Other major assumptions

We further enquired the Valuer in respect of the other major basis and assumptions which have been taken into account in the Valuation Report (including but not limited to historical information on pricing policies and operating expenses to maintain the heat supply operation, and forward-looking information on the expected business development in the future).

To assess the fairness and reasonableness of the assumption of the growth of service area, we have (i) reviewed the Development Plan of Gao Bei Dian City and noted that the number of local urban residents is estimated to increase from approximately 380,000 in 2015 to approximately 635,000 in 2030 and the residential and commercial areas are estimated to increase from approximately 17.0 million sq. m. and 3.9 million sq. m. in 2015 to approximately 20.9 million sq. m. and 5.8 million sq. m. in 2030, respectively; (ii) noted the urbanization rate of Hebei Province of the PRC increased from approximately 46.8% in 2012 to 55.0% in 2017, according to National Bureau of Statistics of China; and (iii) considered the fact that Gao Bei Dian City Government granted the exclusive operating right to the Target Company to provide heat supply services to urban and suburban areas of Gao Bei Dian City from November 2014 to November 2044, therefore we considered that the demand for heating service in Gao Bei Dian City will be sufficient to support the growth of service area.

We understand from the Valuer that the coverage ratios, which represent the percentage of the service areas that the heat supply system can cover, for residential and commercial areas of Phase II adopted in the Valuation Report were taken as the same as those of Phase I for the sake of prudence.

In relation to the output tax rates adopted in the Valuation Report, we have reviewed the Circular Cai Shui 2019 No.38*（財稅〔2019〕38號）and the Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs No. 39 of 2019*（財政部稅務總局海關總署公告2019年第39號文件）published by the State Taxation Administration*（國家稅務總局）in 2019 and noted that the output tax rates of companies providing heat supply to residential areas and commercial areas are nil and 9.0% respectively.

We have also discussed with the management of the Company and the Valuer that the estimated cost of revenue and administrative expense in Valuation were determined with reference to historical financial data with a 2.5% annual growth rate which are in line with the inflation rate of China.

We also obtained and reviewed (i) the projection schedules and the related breakdowns prepared by the Company; (ii) the calculation spreadsheet of the financial projections underlying the Valuation Report; and (iii) the Concession Agreement, we concur with the Valuer that the aforesaid basis and assumptions are fair and reasonable.

During our inquiry with the Valuer and base on our work done as set out above, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation. Having also considered (i) our due diligence work on the Valuer in respect of the Valuation Report; and (ii) the management of the Company confirmed that they have made the financial projections of the Target Company after due and careful enquiry, we consider that principal bases and assumptions adopted for the valuation to be reasonable.

* *For identification purpose*

7. Alternative analyses for the Consideration

As an alternative analysis, we compared the price-to-earnings (the "**P/E**") ratio, and the price-to-book (the "**P/B**") ratio of the Comparable Companies. Considering the P/E and P/B ratios are commonly accepted benchmarks in the comparison of valuation of companies against their industry peers and we are not aware of any specific circumstances that would make such analyses inappropriate, we have adopted them for the purpose of our analyses. We have deselected in comparison of P/E ratios (i) Shenyang Huitian Thermal Power Co Ltd (stock code: 000692.CH) and Dalian Thermal Power Co Ltd (stock code: 600719.CH) to eliminate the effect of outliers to the valuation result; and (ii) China Geothermal Industry Development Group Ltd (stock code: 8128.HK) and Harbin Hatou Investment Co Ltd (stock code: 600864.CH) due to their net loss and thus no P/E ratios are available. Set out below is our analysis on the Comparable Companies:

Name of company	**Principal business**	**P/E ratio** *(Note 1)* *times*	**P/B ratio** *(Note 1)* *times*
China Geothermal Industry Development Group Ltd *(8128.HK)*	Principally engaged in the shallow ground source energy related business	N/A	0.3
Beijing Huayuanyitong Thermal Technology Co Ltd *(002893.CH)*	Principally engaged in thermal supply, energy saving technology service	52.3	3.6
Luenmei Quantum Co Ltd *(600167.CH)*	Principally engaged in clean heating business	15.5	3.3
Ningbo Thermal Power Co Ltd *(600982.CH)*	Principally engaged in production of electricity, heat, ash and its consulting services; heat supply	17.1	1.0
Zhejiang Fuchunjiang Environmental Thermoelectric Co Ltd *(002479.CH)*	Principally engaged in solid waste (sludge, garbage) co-processing and energy saving and environmental protection business	38.6	1.3
Guangzhou Devotion Thermal Technology Co Ltd *(300335.CH)*	Principally engaged in the downstream of the natural gas industry chain (related equipment and operation service industry).	14.4	1.7

Name of company	Principal business	P/E ratio *(Note 1)* *times*	P/B ratio *(Note 1)* *times*
Harbin Hatou Investment Co Ltd *(600864.CH)*	Principally engaged in thermoelectric business and securities business	N/A	1.0
Shenyang Huitian Thermal Power Co Ltd *(000692.CH)*	Principally engaged in providing heating and engineering services to residents and non-resident users	276.3	1.2
SPIC Dongfang New Energy Corp *(000958.CH)*	Principally engaged in clean energy power generation and cogeneration business	51.1	2.7
Dalian Thermal Power Co Ltd *(600719.CH)*	Principally engaged in combined heat and power, central heating	774.3	2.9
	Minimum:	14.4	0.3
	Maximum:	52.3	3.6
	Average:	31.5	1.9
The Target Company	**Principally engaged in production and supply of heat, design, construction and reconstruction of heating system**	**12.6** ***(Note 2)***	**1.3** ***(Note 2)***

Notes:

1. The P/E ratio is calculated by dividing the market capitalization as at 22 May 2019 of the Comparable Companies with their profit after taxation for the latest financial year end. The P/B ratio is calculated by dividing the market capitalization as at 22 May 2019 of the Comparable Companies with their net assets as at the latest financial year/period end.

2. The implied P/E ratio of the Target Company is calculated by dividing the Consideration of RMB245,000,000 by 40% (to derive the 100% value of the Target Company) and further divided by the average of 12-year net profit target stated in the Letter from the Board. The implied P/B ratio of the Target Company is calculated by dividing the Consideration of RMB245,000,000 by 40% (to derive the 100% value of the Target Company) and further divided by the sum of its unaudited net asset value of the Target Company as at 31 March 2019 of approximately RMB241.1 million and the Capital Injection of RMB 245 million.

As illustrated in the table above, the P/E ratio of the Comparable Companies range from a minimum of approximately 14.4 times to a maximum of approximately 52.3 times with an average of approximately 31.5 times. The implied P/E ratio of the Target Company is approximately 12.6 times, which is lower than those of the Comparable Companies. The P/B ratio of the Comparable Companies range from a minimum of approximately 0.3 times to a maximum of approximately 3.6 times with an average of approximately 1.9 times. The implied P/B ratio of the Target Company is approximately 1.3 times, which falls within the range of P/B ratios of the Comparable Companies and is lower than the average P/B ratio of the Comparable Companies.

Based on the above, and having considered that (i) the Consideration was determined with reference to the appraised value determined by the Valuer and represents a discount of approximately 7.1% of the appraised value; and (ii) the principal bases and assumptions adopted for the valuation are reasonable, we concur with the view of the Directors that the Consideration is fair and reasonable.

8. Possible financial effects of the Capital Injection

Upon completion of the Capital Injection, the Target Company will not become a subsidiary of the Company and therefore its financial results will not be consolidated into the financial statements of the Company. The Group will recognise its interest in the Target Company as an investment and will account for that investment using the equity method.

For FY2018 and the three months ended 31 March 2019, the Target Company recorded unaudited net profits after tax of approximately RMB8.7 million and RMB10.5 million, respectively. In view of the earnings of Target Company recorded in FY2018 and the financial projections of profit target from 2020 to 2031, the Directors expect that the earnings of the Group will be enhanced by the Capital Injection.

Upon completion of the Capital Injection, the management of the Company expected that there will be a net increase in the Group's total assets and net assets.

Based on the aforementioned financial impacts of the Capital Injection on the Group, in particular, the positive impact on the Group's earnings and net assets, we are of the view that the Capital Injection is in the interests of the Company and its Shareholders as a whole.

RECOMMENDATION

Taking into consideration the factors and reasons set out above, we are of the opinion that (i) the terms of the Capital Increase Agreement and the transaction contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Capital Injection is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to approve the Capital Increase Agreement and the transaction contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 11 years of experience in the field of corporate finance advisory.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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.

2. INTERESTS OF DIRECTORS

(a) Interests of Directors and chief executive in the shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and 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 positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the "**Model Code**") were as follows:

(i) Long positions in the shares and the underlying shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares/ underlying Shares held	Approximate percentage of interest
Mr. Wei Shaojun	Founder of a discretionary trust(1)	422,872,512(L)	28.48%
	Interest of controlled corporations(2)	433,154,756(L)	29.18%
	Total	856,027,268(L)	57.66%
Mr. Wei Qiang	Beneficiary of a discretionary trust(3)	422,872,512(L)	28.48%
Dr. Liu Zhengang	Beneficial owner(4)	3,998,667(L)	0.27%
Mr. Yuen Chi Ping	Beneficial owner(5)	71,597,830(L)	4.82%
	Interest of controlled corporation(5)	5,504,499(L)	0.37%
	Total	77,102,329(L)	5.19%

Name of Director	Capacity/Nature of Interest	Number of Shares/ underlying Shares held	Approximate percentage of interest
Mr. Han Xiaoping	Beneficial owner(6)	359,400 (L)	0.02%
Dr. Han Qinchun	Beneficial owner(7)	359,400 (L)	0.02%
Mr. Wong Yik Chung, John	Beneficial owner(8)	359,400 (L)	0.02%

Notes:

1. King River Developments Limited is deemed to be interested in 422,872,512 Shares through its control over Longevity Investment Holding Limited and BNP Paribas Singapore Trust Corporation Limited is deemed to be interested in 422,872,512 Shares through its control over King River Developments Limited, and Mr. Wei Shaojun is deemed to be interested in 422,872,512 Shares as a founder of the discretionary trust.

   The details of which are set out as follows:

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest	Number of Shares
King River Developments Limited	BNP Paribas Singapore Trust Corporation Limited	100.00	N	422,872,512(L)
Longevity Investment Holding Limited	King River Developments Limited	100.00	Y	422,872,512(L)

2. Such 419,954,756 Shares are beneficially owned by Lightway Power Holdings Limited, which was incorporated in the Cayman Islands. Lightway Power Holdings Limited was wholly-owned by Global Capital Alliance Limited, which was incorporated in the British Virgin Islands and is directly and wholly-owned by Mr. Wei Shaojun. In addition, 13,200,000 Shares are beneficially owned by Harvest Oak Holdings Limited, which was incorporated in the British Virgin Islands and directly and wholly-owned by Mr. Wei Shaojun. Mr. Wei Shaojun is deemed to be interested in 433,154,756 Shares through its controlled corporations.

3. Mr. Wei Qiang is deemed to be interested in 422,872,512 Shares as a beneficiary of a trust.

4. Dr. Liu Zhengang is interested in 3,998,667 share options of the Company.

5. Mr. Yuen Chi Ping is interested in 66,093,331 Shares and 11,008,998 share options. Among these 11,008,998 share options, 5,504,499 share options are beneficially owned by Mr. Yuen Chi Ping and the remaining 5,504,499 share options are beneficially held by Dragon Legend Global Limited, which is beneficially wholly-owned by Mr. Yuen Chi Ping. Therefore, Mr. Yuen Chi Ping is deemed to be interested in such share options.

6. Mr. Han Xiaoping is interested in 359,400 share options of the Company.

7. Dr. Han Qinchun is interested in 359,400 share options of the Company.

8. Mr. Wong Yik Chung, John is interested in 359,400 share options of the Company.

9. The letter "L" denotes the long position in Shares.

(ii) Long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Wei Shaojun	Longevity Investment Holding Limited	Beneficial owner	1(L)	100%
Mr. Wei Shaojun	Harvest Oak Holdings Limited	Beneficial owner	1(L)	100%
Mr. Wei Shaojun	Lightway Power Holdings Limited	Beneficial owner	1(L)	100%

Note: The letter "L" denotes the long position in Shares

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short position 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 would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, persons other than a Director or chief executive of the Company who had interests or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Long positions in shares and underlying shares of the Company

Name of Substantial Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest
Longevity Investment Holding Limited	Beneficial owner *(Note 1)*	422,872,512(L)	28.48%
BNP Paribas Singapore Trust Corporation Limited	Trustee *(Note 1)*	422,872,512(L)	28.48%
King River Developments Limited	Interest of controlled corporation *(Note 1)*	422,872,512(L)	28.48%
Lightway Power Holdings Limited	Beneficial owner	419,954,756(L)	28.29%
Global Capital Alliance Limited	Interest of controlled corporation	419,954,756(L)	28.29%

Notes:

1. King River Developments Limited is deemed to be interested in 422,872,512 Shares through its control over Longevity Investment Holding Limited and BNP Paribas Singapore Trust Corporation Limited is deemed to be interested in 422,872,512 Shares through its control over King River Developments Limited, and Mr. Wei Shaojun is deemed to be interested in 422,872,512 Shares as a founder of the discretionary trust.

2. Such 419,954,756 Shares are beneficially owned by Lightway Power Holdings Limited, which was incorporated in the Cayman Islands. Lightway Power Holdings Limited was wholly-owned by Global Capital Alliance Limited, which was incorporated in the British Virgin Islands and is directly and wholly-owned by Mr. Wei Shaojun. In addition, 13,200,000 Shares are beneficially owned by Harvest Oak Holdings Limited, which was incorporated in the British Virgin Islands and directly and wholly-owned by Mr. Wei Shaojun. Mr. Wei Shaojun is deemed to be interested in 433,154,756 Shares of controlled corporation.

3. The letter "L" denotes the long position in Shares.

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executive of the Company had any interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

(c) Interests of Directors in contracts

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had, since 31 December 2018, being the date of the latest published audited financial statements of the Company, been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which would not expire or would not be determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and his/her respective associates (as defined in the Listing Rules) was interested in any business apart from the Group's business that competes or is likely to compete (either directly or indirectly) with the Group's business, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

Pursuant to Rule 8.10(2) of the Listing Rules, the following current Directors held share interests and/or directorships in companies engaged in businesses which compete or likely to compete, either directly or indirectly, with the businesses of the Group:

Mr. Wei Shaojun holds share interests and directorships in Longjitaihe Industrial Co., Ltd. (together with its subsidiary "**Longjitaihe Group**"), and Mr. Wei Qiang is a senior management of Longjitaihe Group. Longjitaihe Group engages in public infrastructure construction business. As smart energy business constitutes the Group's principal business activities, the Group currently has no plan to further expand public infrastructure construction business after the Baoding Donghu Project is complete. On this basis, there does not exist any material competition between the businesses of the Group and those of the Longjitaihe Group.

Mr. Wei Qiang holds share interests and directorships in Lightway Green Energy Technology Co., Ltd. ("**Lightway Green Energy**") which engage in businesses of clean energy, mainly the production and sales of photovoltaic components and the development, construction and operation of solar power plants. As the Group acquired a 10.2 MW distributed solar power plant located at the Lightway Industrial Park from a subsidiary of Lightway Green Energy on 4 October 2018, Lightway Green Energy (including its subsidiary) does not hold any solar power plants. Therefore, there does not exist any material competition between the businesses of the Group and those of the Lightway Green Energy (including its subsidiary).

In the future, the Group will be the main entity carrying out the business of smart energy and other clean energy, the Longjitaihe Group and Lightway Green Energy (including its subsidiary) will not participate in the smart energy and other clean energy business that will be competed with the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited accounts of the Company were made up.

6. EXPERTS QUALIFICATION AND CONSENT

The following is the qualification of the expert whose name, opinions and/or reports are contained in this circular:

Name	Qualification
Giraffe Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
APAC Asset Valuation and Consulting Limited	independent professional valuer
SHINEWING (HK) CPA Limited	Certified Public Accountants
Beijing Dentons Law Offices, LLP (Shenzhen)	Legal Adviser as to PRC law

As at the Latest Practicable Date, each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and reference to its name, in the form and context in which they are included.

As at the Latest Practicable Date, each of the experts named above did not have any shareholding in any member of the Group and did not have the right to subscribe for or to nominate persons to subscribe for shares in any members of the Group.

As at the Latest Practicable Date, each of the experts named above did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Suite 805, 8th Floor, Harcourt House, No. 39 Gloucester Road, Wanchai, Hong Kong, during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the EGM;

(a) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(b) the letter of recommendations from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Giraffe Capital Limited" in this circular;

(d) the valuation report prepared by APAC Asset Valuation and Consulting Limited in respect of 40% equity interests in the Target Company, the text of which is set out in Appendix II to this circular;

(e) the written consents of the experts referred to in the section headed "Expert and Consent" of this appendix;

(f) the Capital Increase Agreement;

(g) the deed of guarantee executed by the Guarantor in favour of Beijing Longguang; and

(h) this circular.

APAC Asset Valuation and Consulting Limited
5/F, Blissful Building, 243 – 247 Des Voeux Road Central, Hong Kong
Tel: (852) 2357 0085
Fax: (852) 2951 0799

LongiTech Smart Energy Holding Limited
Suite 805, 8th Floor, Harcourt House,
No. 39 Gloucester Road, Wanchai,
Hong Kong

11 June 2019

Dear Sirs,

RE: VALUATION OF THE FAIR VALUE OF 40% EQUITY INTEREST IN 高碑店市隆創集中供熱有限公司

In accordance with your instructions, we have undertaken a valuation behalf of LongiTech Smart Energy Holding Limited (''LongiTech'') to determine the Fair Value of 40% equity interest in 高碑店市隆創集中供熱有限公司 (the ''Target Company'') as at 31 March 2019 (the ''Valuation Date'').

For the three years ended 31 December 2016, 2017 and 2018, the Target Company has been providing heat supply services to residential, office, and commercial regions in the city of Gaobeidian. Based on information received to date, the Target Company's service coverage area has increased from 2.7 million square meters (''sqm'') in 2016 to 5.4 million sqm in 2018.

PURPOSE OF VALUATION

The purpose of this valuation is to assist LongiTech in the determination of Fair Value of the Target Company based on the prospective financial information, underlying assumptions and information provided by the management of the Target Company and LongiTech (''Management'') for internal reference and compliance purpose. No third party shall have the right of reliance on this report and neither receipt nor possession of this report by any third party shall create any express or implied third-party beneficiary rights.

We relied upon completeness, accuracy and fair representation of operational, financial information and business plans in relation to the heat supply business provided by Management. The Fair Value of the Target Company is subject to numerous assumptions adopted in the prospective financial information. To the extent that any of these assumptions or facts changed, the result of the Fair Value conclusion would be changed accordingly. Regarding the prospective financial information, it has been represented by the management of LongiTech and was assumed for the purposes of this opinion that such analysis and forecasts were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of the management of LongiTech. We can give no assurance that such financial analysis and forecasts can be realized or that actual result will not vary materially from those projected. As agreed with LongiTech, our valuation is to be performed on the basis that the prospective financial information is expected to be achieved and it can be sustainable in the future. It is expected that LongiTech will perform independent due diligence on the achievement of projected results by themselves.

VALUATION BASIS

Based on the draft share purchase agreement ("S&P Agreement"), the Target Company is proposing to acquire 40% equity interest in the Target Company by capital injection, through which the Target Company will issue new shares to LongiTech. The proceeds from the capital injection ("Capital Injection") would be primarily used to finance future capital expenditures relating to the expansion of the production capacity of the Target Company's heat supply facilities.

Pursuant to the concession agreement dated 28 November 2015 ("Concession Agreement"), the Target Company has obtained exclusive operating right to provide heat supply services to urban and suburban areas of the city of Gaobeidian. Management has made reference to the 2013-2030 Urban and Suburban Development Plan ("Development Plan") published by 高碑店市規劃局 (for the purpose of this report, translated as "Gaobeidian City Planning Bureau") in forming the business plan outlining key projections and expectations of the Target Company's operations. It is noted that the Concession Agreement would expire by November 2044, and Management could not affirm whether the agreement would be renewed thereafter with certainty. However, it is noted from the agreement that the government would purchase assets of the Target Company at their market values upon expiry of the Concession Agreement, and it is expected that the company would settle any outstanding liabilities at the same time in an orderly manner.

In light of the above, this exercise is conducted on the presumption that the business activities of the Target Company may not continue by November 2044, and our valuation is based on future cash flows projected by Management from the Valuation Date up to the expiry of the Concession Agreement.

As agreed with LongiTech, the premise of this valuation is that the prospective financial results of the Target Company are expected to be achieved and is sustainable during the forecast period. It is presumed that LongiTech will perform the relevant independent due diligence on the achievability of projected results.

The intended use of the Valuation is to serve as basis for the internal reference of the Company and compliance purpose. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Target Company rests solely with LongiTech. The results of our analysis should not be construed to be a fairness opinion, solvency opinion or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD OF VALUE

According to International Valuation Standard, our opinion of the Fair Value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*".

PREMISE OF VALUE

This report is prepared using the premise that the subject company is a going concern. This means that it is presumed that in the future, the assemblage of assets, resources and income producing items will continue to generate cash flow.

ECONOMIC OVERVIEW

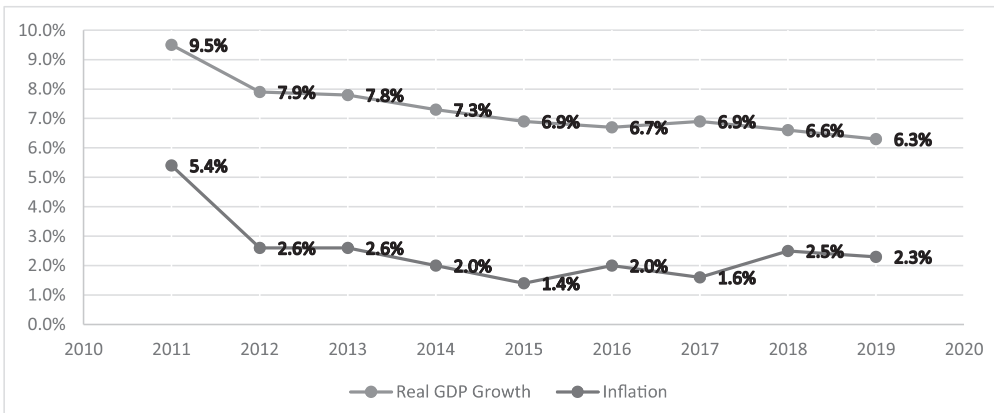
As the Target Company is operating within the Chinese economy, its business is affected by economic conditions and market fluctuations in China. We have reviewed the economic condition of China where the Target Asset will derive its future income from.

GDP Growth in China

In 2018, according to the current stage of 13th Five-Year Plan (2016-2020), China focus on the Social security reform which is implemented by controlling risk in the financial sector through using tighten fiscal policy and the housing market restrictions in the first half of year. Therefore, the economy growth is expected to remain moderate in further 2019. In 2018, the real gross domestic products ("GDP") annual growth rate and the inflation rate are at 6.6% and 2.1% respectively. The real GDP annual growth rate decreases to 6.3% in 2019 and is estimated to slightly decrease to 5.7 % in the 2023 as well. The inflation rate rises to 2.3% and is estimated to slightly increase to 3.0% in the 2023.

In 2018, according to the ADB[1], services industry and Retails sale consumption remained the key driver of growth. Although manufacturing investment rises gradually, the contribution of growth remains unchanged. Therefore, it said domestic demand has a greater impact on growth than exports and it continues to provide strong support for domestic consumption in China.

Chart – Real GDP Annual Growth Rate and Inflation of China



Source: World Economic Outlook Database (April 2019), International Monetary Fund

Worldwide GDP

China's GDP is 1.3407 billion U.S. dollars, ranking second in the world and it is estimated to be closer to the United State's GDP in the 2024. The projected aggregate GDP of major economies around the globe are summarized in the below table.

Table – Projected GDP of Major Economies from 2018 to 2024

		GDP, current prices (Billions of U.S Dollars)						
	Country	2018A	2019E	2020E	2021E	2022E	2023E	2024E
1.	China	13,407	14,217	15,468	16,807	18,207	19,714	21,310
2.	France	2,775	2,762	2,876	2,982	3,100	3,220	3,354
3.	Germany	4,000	3,964	4,157	4,335	4,527	4,714	4,912
4.	Japan	4,972	5,176	5,495	5,808	6,134	6,476	6,849
5.	UK	2,829	2,829	2,927	3,027	3,142	3,266	3,399
6.	US	20,494	21,345	22,198	23,060	23,923	24,813	25,729
7.	World	84,740	87,265	92,310	97,455	102,843	108,527	114,577

Source: World Economic Outlook Database (April 2019), International Monetary Fund

1 ADB (2018), Asian Development Outlook 2017: Transcending the Middle-Income Challenge (Manila: Asian Development Bank)

China's economy is in the process of being transformed towards to a service-oriented, consumer demand and innovation-driven market. Despite recent market fluctuations arising from disputes between the respective governments of China and the United States, the economic conditions of China are expected to remain stable and steadily growing in the long term.

BRIEF DESCRIPTION OF THE TARGET COMPANY

The Target Company is incorporated in People's Republic of China with limited liability and principally engaged in the provision of heat supply services in the city of Gaobeidian. Under the Concession Agreement, the company was able to obtain exclusive operating rights in relation to heat supply services for the residents of Gaobeidian. Whilst the Target Company is the sole provider of heat supply in the city, it is also subject to regulations and oversights by the local government.

VALUATION METHODOLOGY AND BASIS

We have conducted the Valuation in accordance with the International Valuation Standard. The valuation procedures employed include an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Company. All the matters we consider essential to the proper understanding of the Valuation are disclosed in our valuation report.

We have been furnished with the information in respect of the projected operations of the subject business provided by management of Target Company and LongiTech. We have relied substantially on the information provided in the Valuation. The information included, but not limited to, the following:

– Profit and cash flows forecast of the Target Company;

– Financial Information in relation to the Target Company;

– The business risks of the Target Company;

– Relevant licenses and agreements; and

– The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market.

We have assumed that the data and information we obtained in the course of the Valuation, along with the opinions and representations provided to us by the Target Company and LongiTech are true and accurate and accepted them without independent verification.

In arriving at our assessed value, we have considered three generally accepted approaches: Market approach, Cost approach and Income Approach.

Market approach: provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

Cost approach: provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.

Income approach: provides an indication of value by converting future cash flows to a single current capital value.

The applicability and merits of each approach were considered, and our reasoning for choosing the approach to apply is as follows:

Valuation Approach	**Application**	**Reasoning for adopting or rejecting**
Market approach	Rejected	The market approach is rejected because: – The Target Company is aggressively expanding at the present stage of business, while the comparable listed companies are generally mature companies not in their early stages of development. – As the Concession Agreement would expire by November 2044, and it is uncertain whether the agreement can be renewed or extended, it is assumed for the sake of prudence that profits and cash flows from the Target Company may not continue after November 2044. On the other hand, the implicit assumption of the market approach is that companies would continue to operate perpetually. Therefore, this approach is not applicable to the Target Company.
Cost approach	Rejected	The cost approach is rejected because: – This approach is generally not applicable to ongoing operating business like the Target Company; – This approach is not appropriate as it ignores the economic benefits of ownership of the business.

Valuation Approach	Application	Reasoning for adopting or rejecting
Income approach	Adopted	The income approach is adopted because: – Management is able to provide a set of cash flow forecast with supportable, verifiable and explainable assumptions. These forecasts included projections of different streams of revenue, costs of revenue, operating expenses, administrative expenses, working capital projection and the expected capital expenditure of the Target Company over the forecast period. – The income approach can take into account specific factors that affect the business value of the Target Company, such as the specific pricing policies and local government policies to support/regulate the local heat supply business. This approach can therefore provide a more accurate representation of the fair value of the equities of the Target Company.

We have adopted the income approach technique known as discounted cash flow method to assess the Fair Value of the 40% equity interest of the Target Company. Under the said method, we have discounted the projected cash flow of the Target Company to present worth based on the cash flows forecast, other relevant documents and information made available to us.

For the purpose of our valuation, we have derived the future cash flows of the Target Company based on the available information and presently prevailing operating conditions of the business and by taking into consideration other pertinent factors which basically include the followings:

– the market and the business risks of the Target Company;

– the general economic outlook as well as specific investment environment for the business;

– the nature and current financial status of the Target Company;

– the historical performance of the comparable companies;

– the market expectation and required rate of return for similar business; and

– the assumptions as stated in the Assumptions of this report.

As part of our analysis, we are furnished with information prepared by the Target Company that includes the audited and unaudited financial statements and related operational information regarding the subject Assets/Liabilities. We have also conducted personal interviews with senior staff of the Target Company and have relied to a considerable extent on such information in arriving at our value.

DISCOUNT RATE

When evaluating the appropriate discount rate for the Target Company, we have used the Capital Assets Pricing Model ("CAPM"). Under the CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the business is expected to be affected by other firm specific risk factors that are independent of the general market. Then, we have derived the weighted average of the cost of equity and the cost of debt as proxy for the applicable discount rate (Weighted Average Cost of Capital).

The Weighted Average Cost of Capital ("WACC") was adopted as the discount rate for the valuation. The WACC was computed using the following formula:

$$WACC = \left(\frac{D}{D+E}\right)(K_d) + \left(\frac{E}{D+E}\right)(K_e)$$

where:

D = *value of debt capital;*
K_d = *cost of debt capital (post-tax);*
E = *value of equity capital; and*
K_e = *cost of equity capital*

Capital Structure

Estimation of the WACC of the Target Company involves the consideration of the appropriate capital structure (which is commonly represented by the ratio of debt to equity) that the Target Company would likely adopt over the forecast period for its operations.

The adopted capital structure was determined with reference to the average of debt-to-equity ratios of comparable companies, which is perceived as the proxy of industry-average capital structure a market participant would use for the Target Company's operations.

Cost of Debt (K_d)

The cost of debt capital (K_d) is the current interest rate that the Target Company is expected to pay to finance its projected operations within the capital structure. Since the interest expense of a business is tax deductible, the post-tax cost of debt is derived from the nominal cost of debt multiplied by a factor of (1 – corporate tax rate). The adopted pre-tax cost of debt was determined with reference to the People's Bank of China over 5-year lending rate of 4.90%, which is the longest available bank lending benchmark rate. This is the long-term expected borrowing rate that the Target Company would be able to receive for its debt financing on a company level. Under the corporate tax rate of 25% in China, the post-tax cost of debt is determined to be 3.68%.

Cost of Equity *(K_e)*

The cost of equity is estimated using the Capital Asset Pricing Model (CAPM). The CAPM equation (with modifications for perceived additional risk of the Target Company) is as follows:

$$K_e = R_f + \beta_l (R_m - R_f) + R_{size}$$

where:

K_e	=	*Required rate of return on equity;*
R_f	=	*Risk-free rate of return;*
β_l	=	*Levered Beta;*
$(R_m - R_f)$	=	*Equity risk premium; and*
R_{size}	=	Size premium

Risk-free Rate of Return *(R_f)*

The yield on long-term government bonds, which is commonly perceived as risk-free investments in the particular economy, is adopted as a proxy for the risk-free rate of return of the Target Company. In theory, the duration of the selected risk-free security should match the cash flow duration of the projected cash flows being discounted.

In the context of finance and valuation, the term "duration" refers to the weighted average time until all projected cash flows are received by the investors. The duration of cash flows from a business or asset is commonly determined using the following formula:

$$D_{CF} = \sum_{i=1}^{n} \frac{PVCF_i}{TPV} \times t_i$$

where:

D_{CF}	=	*Cash flow duration of the subject asset/business;*
i	=	*Cash flow number;*
$PVCF_i$	=	*Present value of the i^{th} cash flow amount;*
TPV	=	*Sum of present values of all cash flows;*
t_i	=	*Time in years until the i^{th} cash flow amount is received*

Therefore, the cash flow duration of the provided cash flow forecast is calculated to be approximately 12 years. As the operating location of the Target Company is in China, the 10-year China government bond yield of 3.07% was adopted as proxy for the applicable risk-free rate of the Target Company. The duration of the 10-year China government bond is considered to reasonably match the cash flow duration of the subject business.

Levered Beta *(β_1)*

Beta is a measure of systematic risk and is expressed as a function of the relationship between the excess return on an individual security and the return on the market as measured by a broad index.

Betas implied directly from regressions of individual securities and overall market return are also commonly referred to as levered Betas because they reflect the financial leverage of a company's capital structure. In the course of this analysis, it is necessary to adjust the levered Betas of the comparable companies to reflect the selected capital structure of the Target Company. This adjustment is performed by calculating unlevered Betas for each comparable company. The formula of unlevering Beta is as follows:

$$\beta_u = \frac{\beta_1}{[1+(1-T_c)(\frac{D}{E})]}$$

where:

β_u	=	*Unlevered beta; and*
T_c	=	*Corporate tax rate.*

Unlevering the Betas removes the effects of debt from the capital structure to reflect a required return on an investment as if the investment is financed entirely by equity. The average of these unlevered Betas is adopted as proxy of the unlevered Beta of the Target Company, which is in turn "re-levered" by incorporating the selected capital structure into the equation. The resulting beta is thus market-based with a specific adjustment to account for the degree of expected financial leverage of the Target Company. The formula for re-levering beta is:

$$\beta_1 = \beta_u\,[1 + (\frac{D}{E})\ (1 - T_c)]$$

Comparable Companies Selection Criteria

As discussed above, a set of comparable companies was required to estimate the capital structure and Beta applicable to the Target Company. We have identified relevant comparable companies listed on the stock exchange in different countries. The selection criteria include: (i) the selected companies are principally engaged in the business, or have significant business divisions in relation to the provision of heat supply and/or utilities services (with a significant portion (over 40% of total revenue) of revenue generated from such services); (ii) they have the all income comes from the PRC; (iii) the comparable company's information must be publicly available; and (iv) other qualitative factors such as adequate historical data, no long suspension period, etc, and we considered that the following companies fulfilled these criteria. The comparable companies were selected exhaustively by our best efforts. It is our view that the sampling of the 10 companies is a good representation of the population of the heat supply industry, and the implied parameters from this sample is indicative of the industry average.

An extract of the comparable companies and their respective beta included in our discount rate calculation were as follows.

Company Name	Stock Code	Listing location	3-year daily Beta
China Geothermal Industry Development Group Ltd	8128.HK	Hong Kong	0.22
Beijing Huayuanyitong Thermal Technology Co Ltd	002893.CH	China	0.95
Luenmei Quantum Co Ltd	600167:CH	China	0.90
Ningbo Thermal Power Co Ltd	600982:CH	China	0.72
Zhejiang Fuchunjiang Environmental Thermoelectric Co Ltd	002479:CH	China	0.88
Guangzhou Devotion Thermal Technology Co Ltd	300335:CH	China	0.77
Harbin Hatou Investment Co Ltd	600864:CH	China	1.08
Shenyang Huitian Thermal Power Co Ltd	000692:CH	China	0.48
SPIC Dongfang New Energy Corp	000958:CH	China	0.73
Dalian Thermal Power Co Ltd	600719:CH	China	0.92

Source: Bloomberg

Equity Risk Premium *(R_m – R_f)*

The equity risk premium represents the premium realized by investors in common equites over long-term government bonds. This can also be perceived as the excess return required by equity investors to compensate for having to bear the additional risk of equity over risk-free assets. As the operation location of the Target Company is in China, the equity risk premium of China of 9.38% as sourced from the Bloomberg database was adopted to best represent the amount of excess equity risk the Target Company would be subject to.

Size premium *(R_{size})*

Based on empirical studies on the effect of firm size on assets' rate of returns including the *CRSP Deciles Size Study*, the realized total returns on smaller sized companies have usually been greater over a long period of time than the original formulation of the CAPM. This indicates that CAPM does not fully account for the higher returns required for the greater risk faced by smaller companies in the long-term.

The excess return attributable to the firm size of smaller company size is commonly known as a size premium, which is an element commonly considered in discount rate estimation nowadays. The adopted size premium was determined with reference to the micro-cap size premium from the *CRSP Deciles Size Study*.

In light of the above, the discount rate of approximately 12% per annum was determined by the risk free rate of 3.07% (China's government bond yield sourced from Bloomberg), equity risk premium of 9.38% (China's market risk premium), estimated beta of the business of 1.04 (based on comparable companies), estimated cost of debt after tax of 3.68% (post-tax over-5-year China best borrowing interest rate), expected debt to equity ratio of 48.43% (based on comparable companies), and company size risk premium of approximately 3.67%.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. A DLOM will be considered in the privately held company in the valuation. We have considered various research studies conducted on the discount for lack of marketability in developed overseas markets to determine discount for lack of marketability of 15.8%.

The *2018 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability* included an examination of 744 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through September 2017. The adopted DLOM is the median discount implied by these 744 private placement transactions in comparison with the corresponding publicly traded common stocks.

DISCOUNT FOR LACK OF CONTROL ("DLOC")

As the 40% equity of the Target Company represents a minority stake with a lack of control, though with significant influence, over the operations of the company's business. It is common to consider a DLOC to account for the lack of control of the minority equities. In order to determine the amount of discount required, we have taken into consideration the ownership characteristics of the subject equity, as outlined below:

– representation on the board of directors;

– any contractual restrictions arising from the Agreements;

– organization documents such as shareholder agreements and voting trusts;

– any relevant industry regulations;

– voting rights of the subject equity relation to control of the business;

– the size of the block of shares being valued; and

– concentration of ownership.

From our understanding of the subject equity's characteristics and the Company will acquire a minorly stake in the Target Company, but would be able to exert a significant influence on the business operation, as the Company would hold an aggregate 40% equity interest in the heat supply business.

Based on a number of empirical studies including the *Control Premium Study, 2nd Quarter 2018*, the applicable DLOC is therefore determined to be 10% in order to reflect a lack of control of the subject equity in comparison with majority shareholdings, whilst having significantly more influence on the business than a minority shareholding with less than 30%.

MAJOR ASSUMPTIONS AND BASIS OF CASH FLOW FORECAST

Historical information on pricing policies and operating expenses to maintain the heat supply operation, and forward-looking information on the expected business development in the future served as key basis and assumptions in the cash flow forecast prepared by Management.

As mentioned above, the proceeds of the Capital Injection would be used to fund the expansion of the Target Company's business. In alignment with the city's Development Plan, the company's business plan has included an expected increase in heat supply capacity arising from the ongoing construction of phase 2 of the heating facility ("Phase 2") and the increase in area and population that the Target Company's services can reach towards. The adopted cash flow forecast therefore included cash flows to be generated from existing heating facility ("Phase 1") and Phase 2.

It should also be noted that each year's cash flow forecast was provided on a 12-month basis beginning from the beginning of April to the end of March of the coming year. For the purpose of this analysis, each projected financial year in the forecast would be abbreviated as "FY". For instance, the projected year ending 31 March 2020 would be stated as FY20.

Projection Basis of Total Revenue

Based on the historical financial information, the total revenue of the Target Company consisted of two segments, namely revenue from heat supply service fee, and revenue from heat supply system access fee. As discussed above, the Target Company is expanding its heat supply capacity to cover new service areas from Phase 2. Therefore, the projected total revenue comprises:

– Service fee revenue from Phase 1;

– Service fee revenue from Phase 2; and

– Access fee revenue from both Phase 1 and Phase 2.

The above 3 streams of projected revenues are summarized in the following table.

Year	FY20	FY21	FY22	FY23	FY24	FY25-45*
Service fee revenue from Phase 1 *(RMB'000)* (1)	127,884	130,669	133,524	136,450	139,450	142,524-221,331
Service fee revenue from Phase 2 *(RMB'000)* (2)	22,779	37,840	49,698	68,931	97,820	129,830-546,452
Access fee revenue from both Phase 1 and 2 *(RMB'000)* (3)	35,013	44,264	53,710	62,354	71,215	78,472-0**
Total revenue *(RMB'000)* (1+2+3)	184,814	212,773	236,932	267,736	308,485	351,560-767,783
Approx. Growth rate	16%	15%	11%	13%	15%	14%-2%

* *The projections for FY45 were provided on a 12-month basis. As the operating right of the Target Company is expected to expire by the end of November 2044, we have adjusted the projections in the last period by multiplying a pro-rata factor of 0.67 in our calculations.*

** *Access fee revenue gradually declines to zero because no new system installation is projected in later periods.*

Service Fee Revenue from Phase 1

The projected service areas, coverage ratios (details of which to be further discussed below) and revenue attributable to Phase 1 are noted to remain stable over the projection period, as summarized in the below table. The gross revenue calculated below are exclusive of value-added taxes and other additional fees, on the basis that they would be paid upon service and are deducted from the gross revenue.

Year	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25-45***
Resident areas:						
Coverage ratio (A) *Note 1*	96%	96%	96%	96%	96%	96%
Service Area *('000 sqm)* (B) *Note 1*	5,390	5,390	5,390	5,390	5,390	5,390
Unit rate RMB/sqm (C) *Note 2*	21.532	22.07	22.622	23.187	23.767	24.361-39.591
Output tax rate (D)	–	–	–	-	–	–
Gross revenue *(RMB'000)* (B*C/(1+D)*A)	111,415	114,199	117,055	119,979	122,980	126,054-204,862
Office areas:						
Coverage ratio (E) *Note 1*	98%	98%	98%	98%	98%	98%
Service Area *('000 sqm)* (F) *Note 1*	450	450	450	450	450	450
Unit rate RMB/sqm (G) *Note 2*	25	25	25	25	25	25
Output tax rate (H)	9%	9%	9%	9%	9%	9%
Gross revenue *(RMB'000)* (F*G/(1+H)*E)	10,115	10,115	10,115	10,115	10,115	10,115-10,115
Commercial areas:						
Coverage ratio (I) *Note 1*	87%	87%	87%	87%	87%	87%
Service Area *('000 sqm)* (J) *Note 1*	295	295	295	295	295	295
Unit rate RMB/sqm (K) *Note 2*	26.99	26.99	26.99	26.99	26.99	26.99
Tax rate (L)	9%	9%	9%	9%	9%	9%
Gross revenue *(RMB'000)* (J*K/(1+L)*I)	6,355	6,355	6,355	6,355	6,355	6,355-6,355

* *The projections for FY45 were provided on a 12-month basis. As the operating right of the Target Company is expected to expire by the end of November 2044, we have adjusted the projections in the last period by multiplying a pro-rata factor of 0.67 in our calculations.*

Service Fee Revenue from Phase 2

The projected service areas, after providing capital expenditure for laying out heating networks and building Phase 2, increase from 1.10 million sqm by FY20 to 14.70 million sqm by FY36, as summarized below. Due to lack of specific designation of office areas in the Development Plan, the service areas for office areas in Phrase 2 is assumed to be zero sqm. The gross revenue calculated below are exclusive of value-added taxes and other additional fees, on the basis that would be paid upon service and are deducted from the gross revenue.

Year	FY20	FY21	FY22	FY23	FY24	FY25-45*
Resident areas:						
Coverage ratio (A) *Note 1*	96%	96%	96%	96%	96%	96%
Service Area *('000 sqm)* (B) *Note 1*	1,045	1,696	2,176	2,947	4,085	5,296-13,965
Unit rate RMB/sqm (C) *Note 2*	21.525	22.060	22.609	23.183	23.764	24.355-39.579
Output tax rate (D)	–	–	–	–	–	–
Gross revenue *(RMB'000)* (B*C/(1+D)*A)	21,594	35,917	47,229	65,588	93,185	123,825-530,612
Commercial heat supply:						
Coverage ratio (I) *Note 1*	87%	87%	87%	87%	87%	87%
Service Area *('000 sqm)* (J) *Note 1*	55	89	115	155	215	279-735
Unit rate RMB/sqm (K) *Note 2*	26.994	27.071	26.888	27.022	27.004	26.975-27.001
Output tax rate (L)	9%	9%	9%	9%	9%	9%
Gross revenue *(RMB'000)* (J*K/(1+L)*I)	1,185	1,923	2,468	3,343	4,634	6,007-15,840

* *The projections for FY45 were provided on a 12-month basis. As the operating right of the Target Company is expected to expire by the end of November 2044, we have adjusted the projections in the last period by multiplying a pro-rata factor of 0.67 in our calculations.*

Note 1 – Details of Service Area and Coverage Ratio in relation to the Total Population

The service area refers to the total area that the Target Company's heat supply service can reach towards. On the other hand, the coverage ratio refers to the percentage of the service area that the heat supply system of the Target Company can cover.

As shown in the tables above, the Phase 1 currently has a service area of 6.14 million sqm (aggregate of residential, office and commercial areas). To support the expected increase in population and residential and commercial areas arising from the city's Development Plan, Phrase 2's service area would gradually increase from 1.1 million sqm in FY20 to 14.7 million sqm in FY36, and would remain unchanged from FY36 to FY45.

The coverage ratios were historically at about 96% for existing residential areas, 98% for office areas and 87% for commercial areas, which are assumed to remain unchanged over the forecast period. The coverage ratios for residential areas and commercial areas of Phase 2 are projected to be the same as those of Phase 1 for the sake of prudence.

According to National Bureau of Statistics, each urban citizen on average occupied an area of 36.6 sqm in 2016, which represents a 2.2% increase from 2015. With reference to the Development Plan published by Gaobeidian City Planning Bureau, each resident of the city of Gaobeidian would occupy an area of 35 sqm ("Occupancy Area Per Capita") on average over the period until the population of Gaobeidian reaches its projected maximum. The penetration rate of heat supply is expected to increase up to 95% of the domestic population. These served to determine a feasible level of heat supply service area that the Target Company can cover.

The projected service area each year is derived as the projected population multiplied by the expected penetration rate and then multiplied by the Occupancy Area Per Capita. In view of support from the local government, it is expected that the growth rate in the service area will be in line with that of the city's population, and supply of heating service could be feasibly met by the local demand.

The historical average growth rate on the city's population of 2017 and 2018 was found to be 5.17%, which was adopted as a proxy for the long-term projected growth rate on population. On this basis, the population of the city of Gaobeidian would grow to a total of approximately 498 thousand residents by FY31, which could be considered a conservative estimate in comparison with the projected population of 635 thousand residents in FY31 as stated in the Development Plan published by Gaobeidian City Planning Bureau. Instead in this forecast, the total population was projected to only reach 635 thousand residents by FY36 and would be capped at this level thereafter. Management has noted that each person in Gaobeidian would occupy an area of approximately 35 sqm. In the cash flow forecast, the projected population has served as a constraint on the service area that the Target Company can reach towards.

Note 2 – Details of Pricing Policy, Government Subsidies and Projected Unit Service Fee

According to the provided documents and government announcements on pricing policies, the service fees of heat supply in the city of Gaobeidian have been collected based on the floor area that the heating system of the Target Company covered, as long as the service areas are occupied. The majority of service fees would be charged to the occupants directly before the start of winter season and would not be subject to deductions if the heating service is under-utilized.

Since its inception, the Target Company would participate in meetings each year with local government officials to discuss on matters of pricing policies and subsidies provided by the government to support the heat supply operation in the city of Gaobeidian.

According to historical service pricing data beginning from the year 2016, i.e. the inception of the heat supply business, the service fee has been charged at RMB19.5 per sqm in 2017 (first full year of operation) to RMB21 per sqm. in 2019. This unit price consisted of two components: RMB19 per sqm that was charged to residents of Gaobeidian directly, and a government subsidy that gradually increased from RMB0.5 per sqm at inception to RMB2 per sqm in 2019. The goal of the subsidy was to stabilize the unit heating cost to the city's residents, while allowing increments to the nominal unit price for the Target Company to keep pace with inflation.

The breakdown of historical pricing policy (for heat supply to residents) was included in the below table:

Year	**From inception to 2017**	**2018**	**2019**
Total unit service fee *(RMB per sqm)*	19.5	20.0	21.0
Unit fee charged to residents *(RMB per sqm)*	19.0	19.0	19.0
Government subsidies *(RMB per sqm)*	0.5	1.0	2.0

The compounded annual growth rate ("CAGR") of the total unit service fee from 2017 to 2019 was calculated to be approximately 2.5%, which is roughly in line with the 2020 inflation rates (2.5%) of China projected by the International Monetary Fund. For the sake of prudence, Management has projected that the unit service fee of heat supply to residential areas would grow by an annual rate of 2.5% over the forecast period (as shown in the projected unit rates from FY20 to FY45 above).

Based on the provided documents, the local government did not provide subsidies for heat supply services to office areas and commercial areas, and no adjustment to the unit service fee to these areas has been observed. For sake of prudence, no growth was assigned to the unit service fee for office and commercial areas in the cash flow forecast.

Heat Supply Access Fee Revenue

The Target Company receives an upfront heat supply access fee from the property developers or contractors as they assist in the installation of heat supply systems in the service areas, and subsequently recognize access fee revenue based on the year of service and coverage ratio of the installed heat supply system. Historically, the Target Company recognizes RMB39.0 million access fee revenue in 2018 for Phase 1. The projected access fee revenues over the forecast period are included in the below table.

Year	FY20	FY21	FY22	FY23	FY24	FY25-45*
Phase 1 access fee revenue *(RMB'000)*	35,013	37,023	37,023	37,023	37,023	35,197-0**
Phase 2 access fee revenue *(RMB'000)*	–	7,241	16,687	25,332	34,193	43,275-0**

* *The projections for FY45 were provided on a 12-month basis. As the operating right of the Target Company is expected to expire by the end of November 2044, we have adjusted the projections in the last period by multiplying a pro-rata factor of 0.67 in our calculations.*

** *Access fee revenue gradually declines to zero because no new system installation is projected in later periods.*

Seasonality of the Heat Supply Business

Per discussion with Management, it is noted that the majority of heat supply service would be provided during the winter season, i.e. between November to March of the coming year on a regular basis. As each year's cash flow forecast was provided to us on a 12 months basis beginning the beginning of April to the end of March of the following year, it is considered that the cash flow forecast has already reflected seasonality of the heat supply businesses.

Cost of Revenue and Gross Profit Margin

The projected cost of revenue each year comprises operating staff cost, cost of fuel (e.g. coal and oil), cost of electricity, water supply expenses, maintenance expenses (for maintaining the heating facility), depreciation and amortization expenses, and fees relating to energy saving and carbon emission. The cost of revenue was historically 68% of total revenue in 2018.

The costs of revenue of Phase 1 operations were projected to grow at 2.5% each year to stay in line with the projected inflation rate of China. With the integration of Phase 2, Management has projected cost of revenues based on the expected operating expenses (with consideration of 2.5% inflation) to be incurred by Phase 2 operations, the margins of which are consistent with those of existing Phase 1 business.

The projected gross profit margin of the whole company from FY20 to FY44 would range from 16% to 26%, which are within the range of gross profit margins of the Target Company's comparable companies (between 11.4% and 52.2% in 2018).

Administration Expenses:

The historical administrative expenses in 2018 was adopted as the base expenses for Phase 1 in the projections, which amounted to 3-4% of total revenue historically. In the forecast, it was projected to grow at the rate of 2.5% per annum, which is in line with the projected inflation rate of China. This amounted to 4-5% of Phase 1 revenue in the projected cash flows.

Management has projected administrative expenses to be approximately RMB1 per sqm of the expanded service area in Phase 2. The same inflation rate of 2.5% per annum was applied to the projected administrative expenses each year, and amounted to 4-5% of Phase 2 revenue in the projections.

Tax Expenses:

The Target Company would be subject to the 25% corporate tax rate in China. It is also noted that the applicable value-added tax and other regulatory fees have been deducted from the projected gross revenues in the cash flow forecast.

Net Profit Margin:

Based on the above inputs, Management has projected the net profit of the Target Company as follows:

Year	FY20	FY21	FY22	FY23	FY24	FY25-45*
Net Profit *(RMB'000)*	-7,034	11,764	17,247	25,235	33,648	41,931-41,804
Net Profit Margin	-4%	6%	7%	9%	11%	12%-5%

* *The projections for FY45 were provided on a 12-month basis. As the operating right of the Target Company is expected to expire by the end of November 2044, we have adjusted the projections in the last period by multiplying a pro-rata factor of 0.67 in our calculations.*

The net profit margin of the Target Company would decline from the historical 6% in 2018 to -4% in FY20 due to increased operating and administrative expenses from expansion of Phase 2, while the inflow of revenue from Phase 2 will increase at a comparatively slower pace (as reflected in the cash flow forecast. The project margins would stabilize at around 11% after FY24 to the peak of 13% (FY26-28) and eventually levels off to 5% in FY45, which are within the range of net profit margins of the comparable companies (between -8% to 44% in 2018).

Working Capital:

We have been furnished with the information in respect of the projected working capital of the subject business provided by management of Target Company and LongiTech. The working capital projections are prepared in reference to historical operating track records, expectation of the management of Target Company and the business plan which is in line with the above revenue and operating costs projection.

Capital Expenditure:

Based on the historical capital expenditure of Phase 1 and estimated budgets for installing new heating generator in the Phase 2's facilities, Management projected that the Target Company would install a new generator every 2 years, and a total of 6 additional heating generators would be installed in Phase 2. Each generator is expected to increase the heat supply capacity for an additional 2.5 million sqm service areas. The last generator would be installed from FY29 to FY32. In addition to the installation of heating generators, Management also included projected capital expenditure for the installation of heat supply systems in Phase 2 service areas, which would be concentrated in the early years of the cash flow forecast. The projected capital expenditures are included in the following table.

Year	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26-32**
Generator	1st	1st	2nd	2nd	3rd	3rd	4th – 6th
Added service area *('000 sqm)*	1,100	1,400	1,250	1,250	1,250	1,250	7,500
Capital Expenditure *(RMB'000)*	371,024	56,385	50,045	8,247	95,006	8,665	255,221*

* *These are the aggregate added service area and capital expenditure during the period from FY26 to FY32.*

OTHER FACTORS CONSIDERED IN OUR VALUATION

In the course of our valuation, we have taken into consideration of all pertinent factors affecting the business operations of the Target Company. The factors basically include:

– the market and the business risks of the Target Company;

– the general economic outlook as well as specific investment environment for the Target Company;

– the nature and current status of the Target Company;

– the historical performance of the Target Company;

– the assumptions as stated in the Specific and General Assumptions of this report.

We have been provided with extracts of copies of relevant documents, audited and unaudited financial information relating to the Target Company. We have relied upon the aforesaid information in forming our opinion of the value of the Target Company. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the said information which is material to the valuation. We have also been advised by the Target Company that no material fact has been omitted from the information provided. We have also made relevant inquiries and obtained further information as considered necessary for the purpose of this valuation.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change of the economic environment, competitive uncertainties or any other abrupt alternations of external factors.

ASSUMPTIONS

In the course of this valuation exercise, a number of assumptions and caveats have been made. We have based on the following to arrive at our valuation conclusion.

- We have assumed that the future operating revenue and expenditure of the Target Company will be in accordance with the projection provided by the Target Company;

- The valuation result is substantially dependent on the profit and cash flows forecast provided by the Target Company. While we have briefly discussed with the Target Company the assumptions undertaken in the forecast, the Target Company is ultimately responsible for these assumptions. It is presumed that the Target Company has exercised the necessary due-diligence on profit and cash flow forecast and it is believed by the Target Company that the Target Company can achieve the projected results;

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

- There will be no major changes in the current taxation law in the areas in which the company conducting their business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

- The Target Company will retain their key management and technical personnel to maintain their ongoing operations;

- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

- The company will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- The business is unaffected by any statutory notice and that operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

- The business is not subject to any unusual or onerous restrictions or encumbrances; and

- The potential bad debt of the Target Company will not materially affect their business operations.

LIMITING CONDITIONS

We have relied to a considerable extent on the unaudited financial data and other related information provided by the Target Company. We are not in a position to, nor have been instructed to, comment on the lawfulness of the business.

While the achievement of profit and cash flows forecast depends on how well the Target Company would be managed, it should be noted that the Fair Value of the equity of the Target Company is also subject to numerous assumptions adopted in the business plan and prospective financial information. To the extent that any of these assumptions or facts changed, the result of the Valuation would be different. With respect to the prospective financial information regarding the Target Company provided to or otherwise reviewed by or discussed with us, it has been represented by the management of LongiTech and was assumed for the purposes of this opinion that such analyses and forecasts were reasonably prepared based on assumptions reflecting the best currently available estimates and judgements of the management of LongiTech as to the expected future results of the operations and financial conditions of the Target Company to which such analyses or forecasts relate. We can give no assurance, however, that such financial analyses and forecasts can be realised or that actual results will not vary materially from those projected.

In accordance with our standard practice, we must state that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

Neither the whole, nor any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement without our written approval of the form and context in which it will appear.

MANAGEMENT CONFIRMATION OF FACTS

A draft of this report and our calculation has been sent to management of the Target Company. They have reviewed and orally confirmed to us that facts as stated in this report and calculation are accurate in all material respects and that they are not aware of any material matters relevant to our engagement which have been excluded.

REMARKS

Unless otherwise stated, all money amounts are stated in Renminbi.

The conclusion of value is based on accepted valuation procedures and practices that rely on substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company and us.

This report is issued subject to our Assumptions and Limiting Conditions as attached.

SENSITIVITY ANALYSIS

A sensitivity analysis on the Fair Value of the subject equity was conducted holding all other variables constant and varying only the discount rate and the projected growth rate on unit service fee as at the Valuation Date. The results of the sensitivity analysis are incorporated in the below table:

(RMB'000)		**Projected growth rate to unit service fee (residential areas)**				
		1.50%	2.00%	2.50%	3.00%	3.50%
	13.50%	193,000	219,000	245,000	273,000	302,000
	13.00%	196,000	223,000	250,000	280,000	312,000
	12.50%	198,000	227,000	257,000	288,000	322,000
Discount rate	12.00%	201,000	231,000	263,000	297,000	333,000
	11.50%	203,000	236,000	270,000	306,000	345,000
	11.00%	206,000	241,000	277,000	316,000	357,000
	10.50%	209,000	246,000	285,000	326,000	371,000

OPINION OF THE VALUE

Based on the investigation and analysis stated above and on the method employed, we are of the opinion that the Fair Value of 40% equity interest in the Target Company as at Valuation Date was reasonably stated by the amount of RMB263 million.

Yours faithfully,
For and on behalf of
APAC Asset Valuation and Consulting Limited

Ken S.C.Tsoi	**Y.M. Leung**
ICVS MFIN CFTP	**B.B.A.**
Director	*Director*

Notes:

Mr. S. C. Tsoi is the Master of Finance holder and the International Certified Valuation Specialist. He has over 10 years of professional experiences in banking, finance, investment consulting, financial analysis and valuation. His valuation experience covers Hong Kong, Mainland China, Taiwan and other overseas countries in different industries, including IT, utilities, retail, manufacturing, trading, mining, etc.

Ms. Y.M. Leung is B.B.A degree holder and has over 10 years professional experience in banking and valuation. Her valuation experience covers Hong Kong and Mainland China, including IT, utilities, retail, manufacturing, trading, mining, etc.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

11 June 2019

The Board of Directors
LongiTech Smart Energy Holding Limited
Suite 805, 8th floor, Harcourt House,
No. 39 Gloucester Road, Wanchai,
Hong Kong

Dear Sirs,

INDEPENDENT ASSURANCE REPORT

We have examined the accounting policies adopted and calculations of the underlying profit forecast (the "Underlying Forecast") to the business valuation dated 11 June 2019 prepared by APAC Asset Valuation and Consulting Limited (the "Valuer") in respect of the valuation of the fair value of 40% equity interest in 高碑店市隆創集中供熱有限公司 (the "Target Company"), in connection with the proposed acquisition of 40% equity interest in the Target Company by LongiTech Smart Energy Holding Limited (the "Company") as set out in Appendix II of the circular of the Company dated 11 June 2019 (the "Circular").

Directors' Responsibilities

The directors of the Company and the Vendor (the "Directors") are solely responsible for the preparation of the Underlying Forecast including the bases and assumptions for the purpose of valuation of the Target Company based on discounted cash flow method. The Underlying Forecast has been prepared using a set of bases and assumptions (the "Assumptions") that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the Assumptions.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants, ("HKICPA") which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, based on our work on the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion on the reasonableness and validity of the Assumptions on which the Underlying Forecast is based. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) ("HKSAE 3000 (Revised)") "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures specified in Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecast, Statements of Sufficiency of Working Capital and Statements of Indebtedness issued by the HKICPA". We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Underlying Forecast. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to assist the Directors solely in evaluating whether the Underlying Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Company.

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

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions adopted by the Directors as set out in Appendix II of the Circular and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants

Hong Kong

The following is the full text of the letter from the Board issued for the purpose of incorporation in this circular.

11 June 2019

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the announcement of the Company dated 21 May 2019 (the ''Announcement'') in relation to acquire 40% equity interests of the 高碑店市隆創集中供熱有限公司 (the ''Target Company'') by marking capital contribution and also the valuation report dated 11 June 2019 prepared by APAC Asset Valuation and Consulting Limited, an independent valuer (the ''Independent Valuer''), on the valuation of the of 40% equity interest in the Target Company (the ''Valuation''). As discounted future estimated cash flows method is used, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the ''Forecast''). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We have discussed with the Independent Valuer about all aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Independent Valuer is responsible. We have also considered the letter from our reporting accountants, SHINEWING (HK) CPA Limited, regarding the consistency of accounting policies adopted and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations on which the Forecast was based and reviewed by SHINEWING (HK) CPA Limited, we confirm that the Forecast has been made after due and careful enquiry.

For and on behalf of the Board
LongiTech Smart Energy Holding Limited
Wei Qiang
Executive Director

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隆基泰和智慧能源
LONGITECH SMART ENERGY

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of LongiTech Smart Energy Holding Limited (the "**Company**") will be held at Suite 805, 8/F., Harcourt House, 39 Gloucester Road, Wan Chai, Hong Kong on 26 June 2019 (Wednesday) at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT:

(a) the capital increase agreement dated 21 May 2019 (the "**Capital Increase Agreement**") entered into among Beijing Longguang Energy Technology Co., Ltd.(北京隆光能源科技有限公司)("**Beijing Longguang**"), a wholly-owned subsidiary of the Company, Hebei Julin Chuanghe Cultural Communication Limited* (河北聚鄰創和文化傳播有限公司) and Gao Bei Dian City Long Chuang Central Heating Company Limited(高碑店市隆創集中供熱有限公司)(the "**Target Company**"), pursuant to which the Beijing Longguang conditionally agreed to contribute RMB245,000,000 to the registered capital and capital reserve of the Target Company. As the result, Beijing Longguang will own as to 40% equity interests in the Target Company. A copy of the Capital Increase Agreement having been produced to this meeting and marked "A" and initialed by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

and

(b) any one or more directors of the Company be and are hereby authorised to do all such acts and things as they consider necessary and to sign and execute all such documents, and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Capital Increase Agreement and completing the transactions contemplated thereby."

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

Hebei, 11 June 2019

Notes:

(a) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.

(b) The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.

(c) In order to be valid, the form of proxy in the prescribed form together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's share registrar and transfer office, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).

(d) Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such an event, the form of proxy shall be deemed to be revoked.

(e) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

As at the date of this notice, the executive Directors are Mr. Wei Qiang, Mr. Yuen Chi Ping and Dr. Liu Zhengang; 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.