

SMARTHEAT INC.
Form DEFR14A
April 21, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

SmartHeat Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- No fee required.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Copies of all communications to:
Robert Newman, Esq.
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44 Wall Street, 12th Floor
New York, NY 10005
Tel. (212) 248-1001 Fax: (212) 202-6055

EXPLANATORY NOTE

This Amendment No. 1 to the Proxy Statement of Smarheat Inc. (the “Company”) amends only the following portions of the Proxy Statement originally filed on April 20, 2015 (the “Proxy Statement”): (a) the location and time of the meeting and (b) conforming changes to the Form of “Proxy Card.” No other portions of the Proxy Statement have changed.

SMARTHEAT INC.
c/o Huajun Ai: Corporate Secretary
A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110141

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE RECONVENED ON MAY 11, 2015

NOTICE IS HEREBY GIVEN that the Special Meeting of the Stockholders of SmartHeat Inc., a Nevada corporation (the “Company”), held on April 6, 2015 will be reconvened on May 11, 2015 at 2:00 pm local time at the Clubroom at the Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, China for the purposes of considering and acting upon the following proposals:

1. To authorize the sale of shares (the “Stock Sale”) of certain subsidiaries of Company pursuant to the terms of a certain Equity Interest Purchase Agreement (the “EIPA”) dated October 10, 2013, as amended and restated on November 28, 2014 and amended on March 19, 2015 (the “Amended EIPA”), by and among Heat PHE, Inc. (“Heat PHE”), a Nevada corporation and wholly owned subsidiary of the Company, as Seller, and Hongjun Zhang, on behalf of all of several individuals (“Buyers”) identified in Buyers’ Response to RFP submitted to the Company on September 10, 2013 and as revised and accepted by Company on September 23, 2013, as more fully described in the enclosed Proxy Statement;
2. To consider and vote upon one or more adjournments of the Special Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal 1;
3. To transact such other business as may properly come before the Special Meeting.

You are entitled to vote only if you were a SmartHeat stockholder as of the close of business on April 17, 2015 (the “Record Date”). You are entitled to attend the Special Meeting only if you were a SmartHeat stockholder as of the close of business on the Record Date or hold a valid proxy for the Special Meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. You should be prepared to present photo identification for admittance. If you are not a stockholder of record but hold shares through a broker, bank, trustee, or nominee (i.e., in street name), you should provide proof of beneficial ownership as of the Record Date, such as your most recent account statement prior to the Record Date, a copy of the voting instruction card provided by your broker, bank, trustee, or nominee, or similar evidence of ownership.

If you do not provide photo identification or comply with the other procedures outlined above, you will not be admitted to the Special Meeting. For security reasons, you and your bags will be subject to search prior to your admittance to the meeting. Please let us know if you plan to attend the meeting by marking the appropriate box on the enclosed proxy card if you requested to receive printed proxy materials, or, if you vote by telephone or over the Internet, by indicating your plans when prompted.

The Special Meeting will reconvene and continued on May 11, 2015 promptly at 2:00 pm (local time). Check-in will begin at 1:30 pm (local time), and you should allow ample time for the check-in procedures.

Your vote is very important. Whether or not you plan to attend the Special Meeting, we encourage you to read this Proxy Statement and submit your proxy or voting instructions as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials (Notice) you received in the mail, the section entitled Questions and Answers About the Proxy Materials and the Special Meeting beginning on page 13 of this Proxy Statement or, if you requested to receive printed proxy materials, your enclosed proxy card.

By Order of the Board of Directors,

/s/ Oliver Bialowons
Mr. Oliver Bialowons
Director and President

This notice of Special Meeting and Proxy Statement and form of proxy are being distributed and made available on or about April 23, 2015.

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS
TO BE RECONVENED ON MAY 11, 2015

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Smartheat Inc. (“Smartheat”, the “Company”, “us”, “our”, or “we”) for use at the Special Meeting of Stockholders to be reconvened on May 11, 2015, 2:00 pm local time at the Clubroom at the Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, China (the “Special Meeting”), including any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting and Proxy.

The address and telephone number of the Company are c/o the Corporate Secretary who maintains the Company’s corporate records at:

A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110141
+86 (24) 2519-7699

The Proxy Statement and form of proxy are being distributed and made available on or about April 23, 2015.

The costs of preparing, assembling and mailing this Proxy Statement and the other material enclosed and all clerical and other expenses of solicitation will be paid by Smartheat. In addition to the solicitation of proxies by use of the mails, directors, officers and employees of Smartheat, without receiving additional compensation, may solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. Smartheat also will request brokerage houses and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of Common Stock held of record by such custodians and will reimburse such custodians for their expenses in forwarding soliciting materials.

Neither the United States Securities and Exchange Commission (“SEC”) nor any state securities commission has approved or disapproved of the EIPA or the Amended EIPA passed upon the merits or fairness of the transactions contemplated thereby or passed upon the adequacy or accuracy of the disclosure in this Proxy Statement. Any representation to the contrary is a criminal offense.

GENERAL INFORMATION – THE SPECIAL MEETING OF STOCKHOLDERS

General

The enclosed proxy is solicited on behalf of the Board of Directors of Company for use at the Special Meeting to be held at 2:00 pm local time at the Clubroom at the Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, China on May 11, 2015.

The Company maintains its corporate records at the office of its Secretary located at A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110141, phone number +86 (24) 2519-7699.

This Proxy Statement and the accompanying proxy card will first made available on or about April 23, 2015 to all stockholders entitled to vote at the Special Meeting.

Outstanding Stock and Voting Rights

Only stockholders of record at the close of business on April 17, 2015 (the “Record Date”) are entitled to notice of and to vote at the Special Meeting. As of the Record Date, there were issued and outstanding 6,783,399 shares of the Company’s Common Stock, \$0.001 par value per share (the “Common Stock”), the Company’s only outstanding class of voting securities. Each share of Common Stock entitles the holder thereof to cast one vote on each matter submitted to a vote at the Special Meeting.

Voting Procedures; Quorum

At the Special Meeting, provided a quorum is present, the approval of the Stock Sale pursuant to the Amended EIPA requires the affirmative vote of a majority of the shares of the Common Stock outstanding at the close of business on the Record Date.

The approval of necessary adjournments requires the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and entitled to vote at the Special Meeting.

As of the Record Date, the directors and executive officers of the Company and their affiliates owned approximately 4.4 % of the shares entitled to vote at the Special Meeting.

All other matters to come before the Special Meeting will be decided by the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the Special Meeting and entitled to vote on the matter presented in person or by proxy, provided a quorum is present. A quorum is present if at least a majority of the shares of Common Stock outstanding as of the Record Date are present in person or represented by proxy at the Special Meeting. It is currently anticipated that votes will be counted and certified by an Inspector of Election (the “Inspector”) who is expected to be either an officer of the Company or its counsel. In accordance with Nevada law, abstentions will be treated as present for purposes of determining the presence of a quorum.

The Inspector will treat shares that are voted WITHHELD or ABSTAIN as being present and entitled to vote for purposes of determining the presence of a quorum but will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. When proxies are properly dated, executed and returned, the shares represented by such proxies will be voted at the Special Meeting in accordance with the instructions of the stockholder. If no specific instructions are given on such proxies, the shares will be voted:

· FOR the approval of the Stock Sale;

- FOR the approval of one or more adjournments of the Special Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal 1; and
- Upon such other business as may properly come before the Special Meeting or any adjournment or postponement thereof in the discretion of the proxies, but will not be voted other than as provided for the matters set forth above.

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute “broker non-votes.” Broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. These matters are referred to as “non-routine” matters. All of the matters scheduled to be voted on at the Special Meeting are “non-routine.” In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered votes cast on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained.

Abstentions are considered votes cast and thus will have the same effect as votes “Against” each of the matters scheduled to be voted on at the Special Meeting.

Proposal 1. Stock Sale: A properly executed ballot marked ABSTAIN with respect to this proposal will not be counted, although it will be counted for purposes of determining whether there is a quorum. Abstentions will have the same effect as a vote against this proposal. Broker non-votes will be deemed not entitled to vote on the subject matter as to which the non-vote is indicated. Broker non-votes also have the same effect as a vote against this proposal.

Proposal 2. Approval of Possible Adjournments of the Special Meeting: A properly executed ballot marked ABSTAIN with respect to this proposal will not be counted, although it will be counted for purposes of determining whether there is a quorum. Since abstentions are not considered votes cast, they will have no effect on the outcome of this proposal. Brokers have discretion to vote on behalf of beneficial owners with respect to this proposal; as a result, there will be no “broker non-votes” on this item.

Other than the relationship of Proposal 2 to Proposal 1 as described herein, none of the proposals is conditioned on the outcome of any other proposal.

Revocability of Proxies

The enclosed proxies will be voted in accordance with the instructions thereon. Unless otherwise stated, all shares represented by such proxy will be voted as instructed. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date. Any stockholder who has executed a proxy but is present at the Special Meeting, and who wishes to vote in person, may do so by revoking his or her proxy as described in the preceding sentence. Shares represented by valid proxies in the form enclosed, received in time for use at the Special Meeting and not revoked at or prior to the Special Meeting, will be voted at the Special Meeting.

The entire cost of soliciting proxies, including the costs of preparing, assembling, printing and mailing this Proxy Statement, the proxy and any additional soliciting material furnished to stockholders, will be borne by the Company. Arrangements will be made with brokerage houses, banks and other custodians, nominees and fiduciaries to send proxies and proxy materials to the beneficial owners of stock, and the Company expects to reimburse such persons for their reasonable out-of-pocket expenses. Proxies may also be solicited by directors, officers or employees of the Company in person or by telephone, telegram or other means. No additional compensation will be paid to such individuals for these services.

Solicitation of Proxies

The Company will bear the entire cost of soliciting proxies from its stockholders. In addition to solicitation of proxies by mail, the Company will request that banks, brokers, and other record holders send proxies and proxy material to the beneficial owners of the Company's Common Stock and secure their voting instructions. The Company will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, the Company may use several of

its regular employees, who will not be specially compensated, to solicit proxies from the Company's stockholders, either personally or by telephone, facsimile, letter or other electronic means.

Voting

Each stockholder is entitled to one vote for each share held on the close of business on the Record Date, on each matter properly submitted for the vote of stockholders at the Special Meeting. The right to vote is exercisable, in person or by properly executed proxy as described further below.

If you are a stockholder of record as of the Record Date, you may vote in person at the Special Meeting or vote by proxy using the proxy card. Whether or not you plan to attend the Special Meeting, the Company urges you to vote by proxy to ensure your vote is counted. You may still attend the Special Meeting and vote in person if you have already voted by proxy. To vote in person, you may come to the Special Meeting and the Company will give you a ballot when you arrive. To vote using the proxy card, simply complete, sign and date the proxy card (which is enclosed if you received this Proxy Statement by mail or that you may request or that the Company may elect to deliver at a later time), and return it promptly in the envelope provided. If you return your signed proxy card to the Company before the Special Meeting, the Company will vote your shares as you direct.

For Shares Registered in the Name of a Broker or Bank

Most beneficial owners whose stock is held in street name receive instructions for granting proxies from their banks, brokers or other agents, rather than the Company's proxy card. If your shares are held in an account with a broker or bank please follow the instructions provided by such broker or bank.

Fairness Opinion

A fairness opinion regarding the proposed Stock Sale will not be completed and available for review by stockholders prior to the stockholder meeting and vote. As a condition of the completion of the transaction, a fairness opinion is required to be delivered to the Company to the effect that the sale of the remaining 60% of the Target Companies (constituting all of our remaining equity interests in the Target Companies) is fair to the stockholders of the Company from a financial point of view.

MATTERS BEING SUBMITTED TO A VOTE OF SMARTHEAT'S STOCKHOLDERS

Proposal 1: Stock Sale

At the Special Meeting, Company stockholders will be asked to approve the Stock Sale.

The terms of, reasons for and other aspects of the Stock Sale are described in detail in the other sections in this Proxy Statement.

You should note that the Company is seeking approval of the Stock Sale because such Stock Sale might be deemed under Nevada law to be a sale of substantially all of the Company's assets. If stockholders do not approve the Stock Sale, or if the Stock Sale does not otherwise close, the Company may continue to explore additional alternatives to the Stock Sale or resubmit the Stock Sale in the same or revised form to the stockholders for approval at a future date.

The Buyers consist of a group of 25 natural persons, all of whom are P.R.C. citizens, including Wen Sha, Jun Wang and Xudong Wang, managers of the Company's subsidiaries engaged in the PHE segment of its business, and Huajun Ai and Yingkai Wang, the Company's Corporate Secretary and Acting Chief Accountant, respectively. Huajun Ai, Wen Sha, Jun Wang and Xudong Wang are also principals in Northtech Holdings Inc. See the section captioned "Interests of Certain Persons in the Stock Sale".

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS THAT COMPANY STOCKHOLDERS VOTE FOR PROPOSAL 1 TO APPROVE THE STOCK SALE.

Proposal 2: Approval of Possible Adjournments of the Special Meeting

If the Company fails to receive a sufficient number of votes to approve Proposal 1 at the Special Meeting, the Company may propose to adjourn the Special Meeting on one or more occasions, each for a period of not more than 30 days, for the purpose of soliciting additional proxies to approve Proposal 1. The Company currently does not intend to propose adjournment at the Special Meeting if there are sufficient votes to approve Proposal 1.

You should note that in the absence of a quorum of shares present in person or represented by proxy at the meeting, the bylaws of the Company, as amended (the “Bylaws”) provide that the chairperson of the meeting may adjourn the meeting. The presentation of this Proposal 2 to the stockholders of the Company is not intended to, and does not, prevent the chairperson of the meeting from adjourning the Special Meeting in the manner set forth in the Company’s Bylaws under such circumstances. In addition, this Proposal 2 does not prevent the meeting from otherwise being adjourned or postponed in accordance with the requirements of the Nevada Revised Statutes, our Articles of Incorporation or the Bylaws of the Company.

THE COMPANY’S BOARD OF DIRECTORS RECOMMENDS THAT COMPANY STOCKHOLDERS VOTE FOR PROPOSAL 2 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL 1.

SUMMARY OF THE PROXY STATEMENT

This summary highlights selected information from this Proxy Statement and may not contain all of the information that is important to you. You should read carefully this entire Proxy Statement and the documents referred to in this Proxy Statement for a more complete description of the matters on which you are being asked to vote. A copy of the EIPA and Amended EIPA, are attached respectively as Annex A and Annex B to this Proxy Statement. You are encouraged to read the Amended EIPA as it is the legal document that governs the Stock Sale. This summary is qualified in its entirety by the Amended EIPA and the more detailed information appearing elsewhere in this document. This summary includes page references in parentheses to direct you to a more complete description of the topics presented in this summary.

The Company

SmartHeat, Inc.

We are a U.S. holding company with no material assets other than the ownership interests through our subsidiaries Heat PHE and Heat HP of our foreign subsidiaries that design, manufacture and sell plate heating equipment (PHEs) and heat pumps (HPs) in the People’s Republic of China (“PRC”) and Germany.

Heat PHE

Heat PHE was formed in Nevada on August 23, 2013 and is our wholly owned subsidiary and, at that time, we entered into an assignment agreement (“PHE Assignment Agreement”) with Heat PHE to reorganize the business into a separate segment holding those subsidiaries that operated in the plate heating equipment, meters and related products.

Under the PHE Assignment Agreement, the Company agreed to transfer, and in the case of indirectly owned subsidiaries, cause to be transferred, to Heat PHE the following subsidiaries of the Company:

SmartHeat Taiyu (Shenyang) Energy Technology Co., Ltd.
SanDeKe Co., Ltd.

SmartHeat (Shenyang) Energy Equipment Co., Ltd.
SmartHeat Siping Beifang Energy Technology Co., Ltd.
Hohhot Ruicheng Technology Co., Ltd.

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As of December 31, 2014, our Heat PHE subsidiaries contain approximately 92.21% of the assets and approximately 86.81% of the liabilities of the Company, excluding the inter-segment transactions.

A PHE is a device that transfers heat from one fluid to another fluid across large metal plates. PHE products are used in the industrial, residential and commercial sectors to make energy use more efficient and to reduce pollution by reducing the need for coal fired boilers. The subsidiaries of Heat PHE design, manufacture, sell and service PHEs, PHE Units, which combine PHEs with various pumps, temperature sensors, valves and automated control systems, heat meters and heat pumps for use in commercial and residential buildings. They also design, manufacture and sell spiral heat exchangers and tube heat exchangers. Their products are used in a variety of industrial processes where heat transfer is required. Applications include energy conversion for heating, ventilation and air conditioning, and industrial use in petroleum refining, petrochemicals, metallurgy, food and beverage and chemical processing. The subsidiaries of Heat PHE sell their products under the SmartHeat and Taiyu brand names and also sell PHEs under the Sondex brand name as an authorized dealer of Sondex PHEs in China .

Heat HP

Our wholly owned subsidiary Heat HP holds those subsidiaries that manufacture and distribute heat pumps and related products.

Heat HP was formed in Nevada on August 23, 2013 and is our wholly owned subsidiary and, at that time, we entered into an assignment agreement (“HP Assignment Agreement”) with Heat HP to reorganize the business into a separate segment holding those subsidiaries that operated in the heat pump related products. Under the HP Assignment Agreement, the Company agreed to transfer, and in the case of indirectly owned subsidiaries, cause to be transferred, to Heat HP the following subsidiaries of the Company:

SmartHeat (China) Investment Co., Ltd.
SmartHeat (Shenyang) Heat Pump Technology Co., Ltd.
SmartHeat Deutschland GmbH
SmartHeat (Shanghai) Trading Co., Ltd.
Beijing SmartHeat Jinhui Energy Technology Co., Ltd.

As of December 31, 2014, our Heat HP subsidiaries contain approximately 6.73% of the assets and approximately 5.54% of the liabilities of the Company, excluding the inter-segment transactions.

Our heat pump systems provide heating, cooling and hot water for residential and commercial buildings and process heat for industrial applications by moving heat between two locations using small amounts of electricity. In a typical system, heat pumps draw heat from outside air or ground to warm the inside of a home or office building. Many heat pumps have reversible cycles, too, using the same system to cool the inside of a building by transferring heat outside. Heat pumps replace conventional energy sources such as oil, gas and coal with the energy stored in water, soil and air or heat recovered from wastewater or exhaust air. By transferring heat between locations, rather than burning fuel to create a heat source, heat pumps are extremely efficient energy transfer systems. Commercial users install heat pump systems not only to reduce energy consumption but also carbon dioxide, or CO₂, emissions, a trend that is encouraged by policymakers in China. The advantages of heat pumps in terms of energy efficiency, operating cost, CO₂ emission reduction and their ability to provide heating and cooling in one machine has made them the leading energy source for new buildings in Germany and Austria, and has replaced conventional fossil fuel based technology in these countries to a large degree. As the PRC government continues to focus on emissions reduction and energy conservation, we believe there are opportunities for incremental growth in the rapidly growing heat pump market in China. We also anticipate expanding sales of heat pumps manufactured in China under EU design standards to the European market. Heat pumps accounted for 13% and 12% of our sales in 2013 and 2012, respectively.

If the Stock Sale is consummated, we will continue to own Heat PHE and Heat HP and, indirectly, their respective remaining subsidiaries:

Subsidiaries of Heat HP Inc. are:

SmartHeat (China) Investment Co., Ltd.
SmartHeat (Shenyang) Heat Pump Technology Co., Ltd.
SmartHeat Deutschland GmbH
SmartHeat (Shanghai) Trading Co., Ltd.
Beijing SmartHeat Jinhui Energy Technology Co., Ltd.

Subsidiaries of Heat PHE Inc. after the Stock Sale are:

SanDeKe Co., Ltd.
SmartHeat Heat Exchange Equipment Co., Ltd.

Subsidiaries of Heat PHE Inc. that are being sold pursuant to the Amended EIPA in connection with the Stock Sale (the "Target Companies") are:

SmartHeat Taiyu (Shenyang) Energy;
SmartHeat Siping Beifang Energy Technology Co., Ltd.;
SmartHeat (Shenyang Energy Equipment) Co. Ltd.;
Hohot Ruicheng Technology Co., Ltd.; and
Urumchi XinRui Technology Limited Liability Company

Seller:

Heat PHE Inc.
A-1, 10, Street 7
Shenyang Economic and Technological Development Zone
Shenyang, China 110141
+86 (24) 2519-7699

Buyers:

The Buyers consist of a group of 25 natural persons, all of whom are P.R.C. citizens, including Wen Sha, Jun Wang and Xudong Wang, managers of the Company's subsidiaries engaged in the PHE segment of its business, and Huajuan Ai and Yingkai Wang, the Company's Corporate Secretary and Acting Chief Accountant, respectively. Huajuan Ai, Wen Sha, Jun Wang and Xudong Wang are also stockholders in Northtech Holdings Inc.

Principal Provisions of the Amended and Restated Equity Interest Purchase Agreement (page 29 and Annex B)

Under the terms of the EIPA, Buyers purchased 40% of Heat PHE's equity interests in the Target Companies. The purchase price was RMB 5,000,000, which was paid at the closing on December 30, 2013.

On November 28, 2014, Heat PHE entered into an Amended EIPA which amended the EIPA. Under the terms of the Amended EIPA Buyers have agreed to purchase the remaining 60% of Target Companies (constituting all of our remaining equity interests in the Target Companies). The purchase price for the remaining 60% consists of: (i) consideration of RMB 8,500,000 and (ii) the forgiveness of all net indebtedness owing to Target Companies by

SmartHeat and each of its other subsidiaries as of December 31, 2014 which was \$8.79 million as of December 31, 2014.

The effectiveness of the transaction is subject to the following conditions: (i) approval of its stockholders and (ii) receipt by the Board of Directors of the Company of an opinion that the Stock Sale is fair to the stockholders of SmartHeat from a financial point of view. The parties will execute a mutual release to be effective as of the Closing which will provide, in part, for the Target Companies to forgive all net indebtedness from SmartHeat and all of its other subsidiaries owing to the Target Companies as of the effective date of the Closing. On December 24, 2014, the consideration and all documents were deposited into escrow and will be released when the conditions have been satisfied; provided that if the conditions are not satisfied on or before March 31, 2015, either party may terminate the Amended EIPA and the funds and documents will be returned to the depositing party. On March 19, 2015 the Amended EIPA was amended to extend the termination date to April 15, 2015 and amended again to extend the date to May 15, 2015.

Following the Stock Sale, Company's Board of Directors plans to explore strategic alternatives to deploy the proceeds of the Stock Sale, which may include repayment of indebtedness, expansion of our heat pump business in the United States, Europe and China, future acquisitions, a merger or joint ventures with another company, or other actions to redeploy capital. It is unlikely, however, that the Company will make a distribution of cash to our stockholders.

A copy of the EIPA and the Amended EIPA are attached respectively as Annex A and Annex B to this Proxy Statement. The description of the Amended EIPA herein is qualified in its entirety by reference to the Amended EIPA. We encourage you to read the Amended EIPA in its entirety.

The Stock Sale will result in an expected a loss of \$35.27 million from the 100% equity interest sale of the sold entities consisting of a \$44.06 million loss on sale resulting from the difference of the total selling price and the net assets of sold entities, netted with the \$8.79 million due to the forgiveness of all net indebtedness owing to the Target Companies by SmartHeat and each of its other subsidiaries. The Company determined that the restated carrying values of the assets and liabilities being sold are appropriate and comply with GAAP. Please refer to Footnotes 1 and 2 on pages F- 8 and F- 9, F-27 and F-30.

Reasons for the Stock Sale (page 26)

The Company's Board of Directors determined that the terms of the Amended EIPA and the transactions contemplated by the Amended EIPA, including without limitation, the sale of the remaining 60% of our equity interest in Target Companies are advisable and in the best interests of the Company and its stockholders, and has approved the Stock Sale and the transactions contemplated by the Amended EIPA.

Both positive and negative factors, together with the background of the transaction set forth below, comprise the Board of Directors' material considerations in entering into the Amended EIPA. The principal negative factors considered by the Board of Directors was that the Company would be required by generally accepted accounting principles to recognize a substantial loss resulting from the difference between the values at which the net assets of the Target Companies were recorded on the books of the Target Companies and the consideration which the Company would receive. This expected one-time net loss, as of December 31, 2014, was approximately \$35.27 million. For a description of the other factors that the Board of Directors considered in entering into the Amended EIPA, please see the discussion below under the heading "The Stock Sale."

Use of Proceeds (page 29)

A subsidiary of Heat PHE, and not the Company's stockholders, will receive all of the net proceeds from the Stock Sale. Following the Stock Sale, the Company's Board of Directors plans to explore strategic alternatives to deploy the proceeds of the Stock Sale, which may include repayment of indebtedness, expansion of our heat pump business in the United States, Europe and China, future acquisitions, a merger or joint venture with another company, or other actions to redeploy capital. It is unlikely, however, that the Company will make a distribution of cash to our stockholders.

Although the Board of Directors and management have had preliminary discussions regarding potential uses of our capital following the Stock Sale, the Board of Directors intends to continue to review anticipated liabilities and potential strategic uses of capital in connection with the continuation of the Company as a going concern. Factors considered by the Board of Directors in reaching this determination are stated below under the heading "The Stock Sale - - Reasons for the Stock Sale." Accordingly, we cannot specify with certainty the amount of net proceeds, if any, we will use for any particular use or the timing in respect thereof. Consequently, you should not vote in favor of the Stock Sale based upon any assumptions regarding the amount or timing of any potential usages of capital or distributions to stockholders.

The Buyers and the Company have agreed in the Amended EIPA to provide relief of all of the intercompany debt of Heat HP as of December 31, 2014 which was \$8.79 million as of December 31, 2014.

Recommendations to the Company's Stockholders (page 18)

The Company's Board of Directors has determined that the sale of substantially all of the Company's assets pursuant to the Stock Sale is advisable in the best interests of the Company and the Company's stockholders. Factors considered by the Board of Directors in reaching this determination are stated below under the heading "The Stock Sale -- Reasons for the Stock Sale." The Company's Board of Directors has approved the Stock Sale, and recommends that the stockholders of the Company vote in favor of the Amended EIPA and the transactions contemplated by the Amended EIPA, and in favor of any necessary adjournments. Certain of the Company's former officers, who are significant stockholders, have interests in the Stock Sale that are different from the other holders of the shares of the Company's Common Stock. See the section captioned "Interests of Certain Persons in the Stock Sale".

Conditions to the Stock Sale (page 31)

The obligations of each of Buyers and Heat PHE for the effectiveness of the Stock Sale require the satisfaction of specified conditions set forth in the Amended EIPA, including the approval of the Amended EIPA and related agreements by Company's stockholders holding a majority of the outstanding shares of Common Stock and receipt by the Board of Directors of the Company of an opinion that the purchase and sale transaction is fair to the stockholders of SmartHeat from a financial point of view. For a description of the closing conditions, please see the discussion below under the headings "Principal Provisions of the Equity Interest Purchase Agreement."

Interests of Certain Persons in the Stock Sale (page 32)

Buyers consist of a group of 25 natural persons, all of whom are P.R.C. citizens, including Wen Sha, Jun Wang and Xudong Wang, managers of the Company's subsidiaries engaged in the PHE segment of its business, and Huajun Ai and Yingkai Wang, the Company's Corporate Secretary and Acting Chief Accountant, respectively. Huajun Ai, Wen Sha, Jun Wang and Xudong Wang are also principals in Northtech Holdings Inc.

Risk Factors (page 11)

In evaluating the Stock Sale, in addition to the other information contained in this Proxy Statement, you should carefully consider the risk factors relating to the Stock Sale and our Company discussed herein.

RISK FACTORS

When you decide whether to vote for approval of the Stock Sale, you should consider the following factors in conjunction with the other information included in this Proxy Statement. We also ask you to refer to the risk factors set forth in our 2013 Annual Report on Form 10-K, as amended, which are incorporated by reference herein.

If the Stock Sale is not consummated, we will continue to seek other financing alternatives and operate for as long as possible.

If the Stock Sale is not consummated we will continue to seek additional financing option and operate for as long as possible. If we are unable to find alternatives to finance and expand our PHE segment and we continue to operate at a loss we will need to consider options in bankruptcy as we will have not enough operating cash to continue our business.

We cannot be sure if or when the Stock Sale will be completed.

The effectiveness of the Stock Sale is subject to the satisfaction or waiver of various conditions, including the authorization of the Stock Sale by our stockholders and receipt of a fairness opinion to the effect that the sale of the remaining 60% of the Target Companies (constituting all of our remaining equity interests in the Target Companies) is fair to the stockholders of the Company from a financial point of view. We cannot guarantee that the conditions set forth in the Amended EIPA will be satisfied. If we are unable to satisfy such conditions in the Buyer's favor or if other mutual conditions are not satisfied, the Stock Sale will not be complete.

If the Stock Sale is not completed, our board of directors, in discharging its fiduciary obligations to our stockholders, will evaluate other strategic alternatives that may be available. Such other strategic alternatives may not be as favorable to our stockholders as the Stock Sale. Any future sale of substantially all of our assets or other transactions may be subject to further stockholder approval.

While the Stock Sale is pending, it creates uncertainty about our future that could have a material adverse effect on our business, financial condition and results of operations.