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# 東北電氣發展股份有限公司

## NEE NORTHEAST ELECTRIC DEVELOPMENT CO.,LTD.

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

( Stock Code:0042)

### Announcement of Connected Transaction

#### On Signing Venues Lease Agreement

##### Lease Agreement

The Board of Directors (the “**Board**”) of the Northeast Electric Development Company Limited (the “**Company**”) is pleased to announce the venues lease agreement (the “**Lease Agreement**”) entered into by Hainan Garden Lane Flight Hotel Management Co., Ltd. (formerly known as Hainan Tangyuan Technology Co., Ltd., and changed name to Hainan Garden Lane Flight Hotel Management Co., Ltd. on 23 August 2019) (the “**Garden Lane Hotel**”), a non-wholly-owned subsidiary of the Company, and Yunnan Lucky Air Co., Ltd. (the “**Lucky Air**”, the “**lessor**”) on 29 August 2019. According to the Lease Agreement, the lessor agreed to lease the venues to Garden Lane Hotel for the latter to develop its airport hotel and related supporting businesses. The Lease Agreement has a lease term of six years from 1 September 2019 to 31 August 2025 with a total amount of the leased venues of RMB20,571,428.57 (equivalent to HKD22,857,142.86).

Meanwhile, the parties agreed that the venues management fees shall be on normal commercial terms and be expected to be charged on an average of no more than RMB1 million (equivalent to HKD1,111,111) per year.

##### Implication of the Listing Rules

As Lucky Air has a connected relationship with HNA Group Co., Ltd. controlled by Hainan Province Cihang Foundation, the de facto controller of the Company, the transactions contemplated under the Lease Agreement also constitute the connected

transactions of the Company under the Listing Rules of the Stock Exchange and the Listing Rules of the Shenzhen Stock Exchange.

For the Lease Agreement, the Company will recognise the right to use the leased asset as an acquisition of assets under the item of assets due to changes in the lease accounting policies. With the total amount of the leased venues of RMB20,571,428.57 (equivalent to HKD22,857,142.86) and any percentage ratio of transaction size tests being less than 5%, the transaction constitutes a one-off connected transaction. Therefore, the lease transaction constitutes (a) a share transaction of the Company subject to notification, reporting and announcement requirements under Chapter 14 of the Listing Rules, and (b) a de minimis transaction of the Company subject to the announcement and annual report, exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Meanwhile, the venues management fees incurred constitute a continuing connected transaction in the ordinary and usual course of business, which is subject to the standards under 14A.76 and fully exempt.

The execution of the Lease Agreement was approved at the 7th meeting of the 9th Board of Directors held on 29 August 2019. The connected Directors as defined by the Listing Rules, namely Mr. Zhu Jie, Mr. Li Rui, Ms. Ma Yun and Mr. Bao Zongbao, abstained from voting at the Board meeting. The Directors have confirmed that the terms of the Lease Agreement are fair and reasonable and the transactions contemplated under the Lease Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

## **I. Profile of the Connected Transaction**

### **(I) Basic information on the connected transaction**

In order to obtain new investment opportunities and profit growth drivers, to optimise the income structure as well as to enhance the ability of continuing operations, Garden Lane Hotel, a non-wholly-owned subsidiary of the Company, has entered into the Lease Agreement with Lucky Air for developing its airport hotel and related supporting businesses, with a leased

property area of 27,750 square meters (sq.m.), a lease term of six years from 1 September 2019 to 31 August 2025 and the total amount of RMB20,571,428.57 (equivalent to HKD22,857,142.86).

Meanwhile, both of the parties agreed that the property management fees shall be on normal commercial terms and be expected to be charged on an average of no more than RMB1 million (equivalent to HKD1,111,111) per year.

Capitalizing on the special geographic location of Kunming Airport and experienced management practices and expertise on the hotel industry, Garden Lane Hotel will strive to create a characteristic and boutique airport hotel to bring new vitality for the continuing operation of the listed company and to further promote the transformation of the Company from traditional manufacturing to modern service industry.

## **(II) Relationship with the Company**

As Lucky Air has a connected relationship with HNA Group Co., Ltd. controlled by Hainan Province Cihang Foundation(海南省慈航公益基金會), the de facto controller of the Company, the transaction shall constitute a connected transaction.

## **(III) Consideration by the Board and approval procedures necessary for the agreement to take effect**

On the 7th meeting of the 9th Board of Directors on 29 August 2019, the proposal was approved by non-connected Director Mr. Su Weiguo and independent directors Mr. Li Ming, Mr. Qian Fengsheng, Mr. Fang Guangrong while the connected Directors Mr. Zhu Jie, Mr. Li Rui, Ms. Ma Yun, Mr. Bao Zongbao had abstained from the voting, according to relevant provisions of the China Securities Regulatory Commission, Shenzhen Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of Northeast Electric Development Company Limited (the “**Articles of Association**”).

The independent directors of the Company had reviewed the connected transaction in advance and issued independent opinions. The transaction does not constitute a major asset restructuring as defined in the Administrative Measures for the Material Asset restructuring of Listed Companies according to relevant laws, regulations and the Articles of Association. Therefore, it does not need to be approved by relevant authorities or submitted to the general meeting of the Company for consideration after the size tests.

## **II. Basic Information on the Connected Parties**

### **(I) Basic information**

**Company name:** Yunnan Lucky Air Co., Ltd.

**Company type:** other limited liability companies

**Unified Social Credit Code:** 91530000760444704P

**Registered address:** 7/F, Building 8, Xishan Wanda Plaza, Qianxing Road, Xishan District, Kunming, Yunnan Province

**Main office location:** Lucky Air Base, Airport East Road, South Working Area, Changshui International Airport, Kunming, Yunnan Province

**Legal representative:** Zi Yin

**Scope of business:** domestic (including Hong Kong, Macao and Taiwan) and international air transportation services of passengers and cargoes; import and export of goods; sideline insurance agent; gift sales; commission sale of sightseeing and performance tickets; hotel booking; car rental; advertising operation; food business; wholesale and retail of prepackaged foods (Projects subject to approval according to laws shall only be commenced upon approval by relevant departments).

**Registered capital:** RMB3,495,827,066.02

**Shareholders and shareholding structure:**

No.	Shareholder name	Contribution amount (RMB 0'000)	Contribution ratio (%)
1	Hainan Airlines Holding Co., Ltd.	245380.000439	70.19
2	Yunnan Pengxia Yuanhao Investment Partnership Corporation (Limited Partnership) 雲南鵬夏元昊投資合夥企業 ( 有限合夥 )	57643.896403	16.49
3	Yunnan Communication Investment & Construction Group Co., Ltd. 雲南省交通投資建設集團有限公司	46558.80976	13.32
<b>Total</b>		<b>1,300,100</b>	<b>349582.706602</b>
<b>De facto controller:</b> Hainan Provincial State-owned Assets Supervision and Administration Commission			
<b>Note:</b> Lucky Air has a connected relationship with HNA Group Co., Ltd. controlled by Hainan Province Cihang Foundation, the de facto controller of the Company			

As of 31 December 2018, Hainan Guoshang recorded total audited assets of RMB 6,880.6223 million and net assets of RMB 6,556.3679 million. The annual revenue of 2018 was RMB 29.3148 million and the net profit was RMB -66.8 thousand. As of 30 June 2019, the total unaudited assets and net assets amounted to RMB 11,515.4773 million and RMB 6,553.1469 million respectively. The unaudited revenue was RMB 11.0654 million and the net profit was RMB -3.3056 million for the six months ended 30 June 2019.

## **(II) History, development and financial position of the principal business in the past three years**

Founded in 2004, Yunnan Lucky Air Co., Ltd. is a low-cost airline company headquartered on Kunming, Yunnan Province, the principal business of which is domestic (including Hong Kong, Macao and Taiwan) and international air transportation of passengers and cargoes. In the past three years, Lucky Air has devoted to its principal business with a focus on the expansion of civil air transportation services of passengers and cargoes, achieving outstanding performance in its principal business and no significant change has taken place. As of December 2018, Lucky Air owned

54 fleets, 149 existing routes (including 131 domestic routes and 18 international routes), covering 92 cities (including 76 domestic cities and 16 international cities).

As of 31 December 2018, the Company recorded total audited assets of RMB17,552.8067 million and net assets of RMB8,704.1195 million. The annual revenue of 2018 was RMB7,116.11 million and the net profit was RMB157.7260 million. As of 30 March 2019, the total unaudited assets and net assets amounted to RMB17,187.5629 million and RMB8,822.5968 million respectively. The unaudited revenue was RMB2,050.4517 million and the net profit was RMB118.4773 million for the three months ended 30 March 2019.

### **(III) Other information**

According to the verification through Executive Information Open Network of the Supreme People's Court of China (<http://zxgk.court.gov.cn>), as of the date of this announcement, Lucky Air was not included in the list of persons who were untrustworthy or subjected to joint disciplinary actions.

### **III. Basic information on the target of the connected transaction**

The leased venues by Garden Lane Hotel to Lucky Air is located in No. 1, Airport Middle Road, Guandu District, Kunming, Yunnan Province with right of use of the venues for the operation of the hotel and related supporting services. The area of the leased venues is 27,750 sq.m., including Block 2, Block 3 and Block 4 of Lucky Air office buildings.

### **IV. Pricing policy and basis of the connected transaction**

The pricing of the connected transaction is on normal commercial terms and based on the market price of leasing properties in the surrounding areas following fair and reasonable pricing principles. Both parties entered into the transaction agreement based on the principles of voluntariness, fairness and mutual benefit, and the transaction price enjoys a moderate concession for the listed company compare to the price of third parties, which conforms to the principles of fairness and reasonableness without any damages to the interests of the Company and all minority shareholders.

Term	Area (sq.m.)	Lease fee		Venues management fee		Pricing basis
		Average price (RMB/day/sq.m.)	Annual Rental (RMB)	Average price (RMB/day/sq.m.)	Annual Venues management fee (RMB)	
September 2019- August 2020	27,750	0.310	3,142,857.14	0.078	785,714.29	The fair market price in the surrounding areas is RMB0.6–1.2/sq.m.; and the fair market price of property management fee in the surrounding areas is RMB0.2/sq.m.
September 2020- August 2021		0.322	3,257,142.86	0.080	814,285.71	
September 2021- August 2022		0.333	3,371,428.57	0.083	842,857.14	
September 2022- August 2023		0.344	3,485,714.29	0.086	871,428.57	
September 2023- August 2024		0.355	3,600,000.00	0.089	900,000.00	
September 2024- August 2025		0.367	3,714,285.71	0.092	928,571.43	
<b>Total</b>			<b>20,571,428.57</b>		<b>5,142,857.14</b>	

## V. Main contents of the connected transaction agreement

**Party A:** Yunnan Lucky Air Co., Ltd.

**Party B:** Hainan Garden Lane Flight Hotel Management Co., Ltd. (formerly known as Hainan Tangyuan Technology Co., Ltd., and changed name to Hainan Garden Lane Flight Hotel Management Co., Ltd. on 23 August 2019)

### (I) Leased venues



The venues leased by Party A to Party B is located in No. 1, Airport Middle Road, Guandu District, Kunming with an actual leased area of 27,750 sq.m., including Block 2, Block 3 and Block 4 of Lucky Air office buildings.

## **(II) Purpose**

The venues leased by Party B is for the operation of the hotel and related supporting services, conforming to related national and local regulations on the use and management of venues.

## **(III) Lease term**

Through negotiation between both parties, the lease term is 6 years from 1 September 2019 to 31 August 2025.

After the lease term expires, Party B is required to make a written renewal request to Party A within three months before the expiration of the lease term if Party B intends to renew the lease. After Party B is approved after going through consideration procedures according to compliance management requirements, the agreement can be extended for six years upon consensus through negotiation by both parties.

Party A shall provide Party B with venues management services such as integrated airport service system, including but not limited to: (i) public security and safeguard services: Party A shall provide public security and ground traffic management services for Party B in Kunming Airport at the request of Party B; (ii) greening and cleaning services: Party A shall provide cleaning and sanitation services, sewage and waste treatment services for areas specified by Party B; (iii) input energy and power supply and maintenance services.

## **(IV) Rental and payment methods**

Both parties agreed to pay venues rental and venues management fee in amounts set forth in the following table.



<b>Term</b>	<b>Area (sq.m.)</b>	<b>Annual venue rental (RMB)</b>	<b>Annual venue management fee (RMB)</b>
September 2019 – August 2020	27,750	3,142,857.14	785,714.29
September 2020 – August 2021		3,257,142.86	814,285.71
September 2021 – August 2022		3,371,428.57	842,857.14
September 2022 – August 2023		3,485,714.29	871,428.57
September 2023 – August 2024		3,600,000.00	900,000.00
September 2024- August 2025		3,714,285.71	928,571.43
<b>Total</b>		\	<b>20,571,428.57</b>

Venue rental and venue management fee shall be paid monthly. Party B shall pay the rental and venue management fee of the month to Party A prior to the 15th day of each month.

Expenses incurred related to hotel operations during the lease term, including water, electricity, gas, heat energy and communication expenses, shall be borne by Party B, and Party A shall guarantee the normal use of the above energy by Party B.

#### **(V) Venues repair and return**

Party A shall guarantee the leased venues and facilities are in normal and safe conditions for use. Meanwhile, Party B shall use the leased venue in a proper way and maintain it in a good state.

Party B shall apply to Party A ahead of time in writing if it needs to renovate and expand all buildings within the leased scope, and shall not carry out construction and renovation arbitrarily.

In order to guarantee smooth design and reconstruction of decorations to the leased venue by Party B, Party A agrees to provide professional as-built

drawings for all buildings within the leased scope (including architecture, structure, water, electricity, heat and gas), and relevant drawings and data for reconstruction, expansion and dismantlement of the buildings over the years.

When Party B returns the property, the venues shall be in a state for normal use. Decorations made by Party B during the lease period are not required to be removed. The property shall be inspected and accepted by Party A in returning, and respective expenses shall be settled by both parties.

#### **(VI) Sublease, transfer, exchange and mortgage**

Party B shall obtain the prior written consent of Party A if it intends to lease or sublease part of the premises for operational purposes during the lease term.

During the lease term, if Party A needs to mortgage the property, it shall notify Party B in writing at least 30 days in advance, and guarantee that the mortgagee agrees the contents stipulated in the Lease Agreement and the rights of Party B will not be affected.

During the lease term, Party A shall notify Party B at least three months in advance if it needs to sell and dispose of the property. Party B shall enjoy the preemptive right under the same conditions.

#### **(VII) Liability for breach**

In case of losses of Party B caused by property and debt disputes of Party A, Party A shall fully compensate Party B (including expenses of decoration and renovation, equipment procurement and supporting facilities, and operating losses). If Party B is unable to operate due to the above reasons, Party B is entitled to terminate the agreement and require Party A to pay liquidated damages equivalent to the rental for 12 months in that year according to the Lease Agreement. If the liquidated damages are insufficient to make up for the losses of Party B, Party A shall compensate the difference between the losses and liquidated damages.

In the event of damages to the property and property losses or personal injury of Party B are caused by the failure of Party A in performing the repair and maintenance responsibilities hereof timely, Party A shall assume the

compensation liability.

If Party B delays to pay the rental, it needs to pay liquidated damages at the rate of 0.05% of the rental payable for each day of delay.

### **(VIII) Special agreements**

During the lease term, based on friendly cooperation of both parties, Party B shall coordinate with the production and operation of Party A to the maximum extent. If office buildings of Party A cannot ensure production in a large-scale flight delay, Party B shall provide Party A with offices (no more than 500 offices/night each year) for production for free.

During the lease term, based on friendly cooperation of both parties, Party B shall provide Party A with offices (no more than 15 offices/night) for reception for free each month.

## **VI. Purposes and influences of the connected transaction**

This transaction aims to promote the going-concern ability of the Company and realise the diversification of businesses and the maximization of shareholders' interests of the shareholders. It is beneficial for the Company to obtain new investment opportunities and profit growth drivers, and meets interests of all shareholders without prejudice to the interests of the listed company and all minority shareholders.

## **VII. Various connected transactions with the connected party on a cumulative basis**

From the beginning of 2019 to the disclosure date of the announcement, Northeast Electric Development and its subsidiaries did not enter into any connected transaction with Lucky Air (including other connected parties under the control of the same entity or with control relationship).

## **VIII. Prior Approval and Independent Opinions of Independent Directors**

Independent directors of the Company have approved the connected transaction in advance and agreed to submit this proposal to the Board for consideration with their independent opinions as follows:

(I) Upon careful review of materials related to this transaction provided by the Company, it is regarded that they are informative and sufficient so the Board can make rational and scientific decisions. It is agreed to submit the proposal on the lease agreement entered into by the non-wholly-owned subsidiary of the Company Hainan Garden Lane Flight Hotel Management Co., Ltd. and Yunnan Lucky Air Co., Ltd. to the 7th meeting of the 9th Board of Directors for consideration.

(II) This transaction follows the principles of voluntariness, fairness and reasonableness and consensus. The pricing of the rental and property management fee is determined by referring to the market price in the surrounding areas, which is just, reasonable and fair, meeting the interests of the Company and shareholders as a whole. It is not found that there are behaviors and conditions which have caused damage to the Company and non-connected shareholders, conforming to provisions of related laws, regulations and the Articles of Association.

(III) This transaction is made based on the change of business development ideas by the management of the Company with the optimisation of income structure, promotion of going-concern ability and maximization of shareholders' interests as the goals. The Board considered the transaction according to legal procedures, and connected directors have abstained from voting, thus the decision procedures of the connected transaction conform to laws and regulations.

(IV) The connected transaction is conducted in accordance with the listing rules of H shares and on normal commercial terms and in the interests of the Company and shareholders as a whole.

(V) The transaction under the lease agreement by Hainan Garden Lane Flight Hotel Management Co., Ltd. and Yunnan Lucky Air Co., Ltd. is agreed.

Note: For the purposes of illustration only, any amount denominated in RMB in this announcement was translated into HKD at the rate of RMB0.90=HKD1. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

By order of the Board

***Zhu Jie***

*Chairman*

Haikou, Hainan Province, the PRC

29 August 2019

*As at the date of this Announcement, the Board comprises of five executive Directors, namely Mr. Zhu Jie, Mr. Li Rui, Ms. Ma Yun, Mr. Bao Zongbao and Mr. Su Weiguo; and three independent non-executive Directors, namely Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong.*