

The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



東北電氣發展股份有限公司

NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

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

(Stock Code: 0042)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 30% EQUITY INTERESTS IN THE TARGET COMPANY

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



BAOQIAO PARTNERS CAPITAL LIMITED

INTRODUCTION

The Board is pleased to announce that on 26 April 2020, the Purchaser, an indirect non-wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Interests for the Consideration of RMB48.9 million (equivalent to approximately HK\$53.5 million), which shall be settled by cash and funded by internal resources of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Company and the Vendor are both controlled by HNA Group, the Vendor is deemed to be a connected person of the Company, the Acquisition contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, the Agreement and the transactions contemplated thereunder.

The Vendor is, at the date of this announcement, directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group.

As Beijing Haihongyuan, which controls over the voting right in respect of its shares in the Company, is an associate of and controlled by HNA Group and thus has a material interest in the connected transaction contemplated under the Agreement, it is required to abstain from voting at the EGM in respect of the Agreement and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, no other Shareholder has a material interest in the Acquisition and no other Shareholder is required to abstain from voting at the EGM to approve the resolution(s) in respect of the Agreement and the transactions contemplated thereunder.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong, has been established to advise the Independent Shareholders regarding the Agreement and the transactions contemplated thereunder, and as to whether the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Agreement.

The Independent Board Committee will form its view in respect of the terms of the Acquisition after obtaining and consideration the advice from the Independent Financial Adviser. BaoQiao Partners Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

A circular, containing, among other things, (i) details of the Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) the Property Valuation Report; (v) the Target Company Valuation Report; and (vi) a notice to convene the EGM, will be despatched to the Shareholders on or before 15 May 2020 in compliance with the Listing Rules.

Shareholders and potential investors of the Company should note that the Completion is subject to the fulfillment (or waiver, if applicable) of the conditions precedent as set out in the section headed “Conditions Precedent” in this announcement, and the Completion may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 26 April 2020, the Purchaser, an indirect non-wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Interests for the Consideration of RMB48.9 million (equivalent to approximately HK\$53.5 million), which shall be settled by cash and funded by internal resources of the Group.

The principal terms of the Agreement are summarised below.

THE AGREEMENT

Date : 26 April 2020

Parties : the Vendor; and
the Purchaser.

The Sale Interests : 30% of the entire equity interests in the Target Company

Consideration

The Consideration for the Acquisition payable by the Purchaser under the Agreement is RMB48.9 million (equivalent to approximately HK\$53.5 million). Pursuant to the terms of the Agreement, the Purchaser shall deposit an amount equal to the Consideration within twenty (20) days of the signing of the Agreement into an escrow account and such amount shall be released to the Vendor upon Completion; or be refunded in full to the Purchaser within three (3) Business days upon (whichever is earlier): (a) any of the conditions precedent contained in the Agreement not satisfied; or (b) 31 December 2020.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the relevant parties and is on normal commercial terms with reference to the Target Company Valuation Report prepared by an independent valuer based on asset-based approach to determine the value of the Target Company.

According to the Target Company Valuation Report, the appraised value of the Target Company was RMB163,338,600 as of 31 December 2019. The appraised value of 30% of the entire equity interests of the Target Company was accordingly approximately RMB49.0 million. The Consideration represents a slight discount of approximately 0.21% to such value.

Conditions precedent

The Completion is subject to the following conditions precedent being satisfied:

- (a) having obtained the approval from the Independent Shareholders at the EGM in respect of the Agreement and the transactions contemplated thereunder; and
- (b) having obtained all necessary consents and approvals required on the part of the Company, the Purchaser and the Vendor in respect of the Agreement and the transactions contemplated thereunder.

Completion

Within seven (7) Business Days upon receipt by the Vendor of the Consideration, the parties shall procure to make and complete the registration of the transfer of the Sale Interests.

Upon Completion, the Target Company will be owned as to 69.8%, 30.0% and 0.2% by the Vendor, the Purchaser, and HNA Hotel Group, respectively. The financial results of the Target Company will not be consolidated into the financial statements of the Group.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company established in the PRC on 16 July 2007 with limited liability. The Target Company is principally engaged in hotel-related businesses and property leasing. As at the date of this announcement, the Target Company is owned as to 99.8% by the Vendor and 0.2% by HNA Hotel Group, respectively. Upon completion, the Target Company will be owned as to 69.8%, 30.0% and 0.2% by the Vendor, the Purchaser, and HNA Hotel Group, respectively.

Information of the Property

The Property is wholly-owned by the Target Company. The Property is located in Chongqing, the PRC and is for commercial use. The total gross floor area of the Property is 18,143.4 sq.m. The land use rights of the Property have been granted for a term until 28 July 2032.

The Property is currently leased by the Target Company to an Independent Third Party for a term between 24 May 2013 and 23 May 2028 at an initial annual rent of RMB8.2 million (equivalent to approximately HK\$8.97 million) (subject to a 5% increase every three years thereafter) for hotel-related businesses.

The Property was pledged on 11 March 2019 as part of the collaterals to secure a bank borrowing in the sum of RMB577.59 million by Grand China Air Co., Ltd. (大新華航空有限公司), which is owned as to approximately 23.11% by HNA Group, from China Minsheng Banking Corporation Limited, an Independent Third Party, for a period between 11 March 2019 and 27 March 2021.

Financial information of the Target Company

The financial information of the Target Company, as extracted from the audited financial statements of the Target Company prepared in accordance with the Chinese Generally Accepted Accounting Principles: Chinese Accounting Standards for Business Enterprises, is summarised as follows:

	For the year ended 31 December 2018 (audited) <i>RMB '000</i>	For the year ended 31 December 2019 (audited) <i>RMB '000</i>
Net profit before taxation	7,218	7,077
Net profit after taxation	5,405	5,307

The audited net assets value of the Target Company as at 31 December 2019 as shown in its audited consolidated financial statements amounted to approximately RMB165.1 million.

INFORMATION OF THE VENDOR

The Vendor is directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group. The Vendor is principally engaged in investment holding and hotel-related businesses.

INFORMATION OF THE COMPANY AND THE PURCHASER

The Company is, at the date of this announcement, directly owned as to approximately 9.33% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group. Upon completion of the Subscription, HNA Group will indirectly hold approximately 7.92% of the A shares of the Company and approximately 15.14% of the H shares of the Company.

At present, the Group is principally engaged in the R&D, design, production and sales businesses of products related to power transmission and transformation equipment and hotel-related businesses.

The Purchaser is a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company, which is, as at the date of the announcement, indirectly owned as to 99% by the Company and 1% by Shanghai Yizhou. The Purchaser is principally engaged in hotel-related businesses.

REASONS AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the R&D, design, production and sales businesses of products related to power transmission and transformation equipment and hotel-related businesses.

The Group has been actively exploring and expanding its hotel-related businesses in recent years, involving mainly catering and accommodation services and remarkable results have been achieved. In particular, the Purchaser has successively entered into venue rental agreements and entrusted hotel management agreements with hotels operated by its related parties under HNA Group. Relevant business has commenced in February 2019.

As revealed in the announcement of the Company dated 29 March 2020 in relation to the unaudited significant financial information of the Group, the Purchaser as a subsidiary of the Company has generated a revenue of approximately RMB61.3 million and a profit of more than RMB6 million from its hotel-related businesses for the year ended 31 December 2019.

The Acquisition is part of, and in line with, the Group's plan to enhance its investment and development in the hotel-related business segment.

The Board is of the view that the Acquisition, which involves a hotel in Chongqing, the PRC, being the Property, will enable the Group to (i) leverage on the resources, management experience and expertise of the Target Company and its related parties in the hotel industry; (ii) enrich its business scope and expand its new hotel-related business segment; (iii) strengthen the business co-operation with the Vendor and its related parties in hotel-related businesses; and (iv) further the transformation of the Group from solely engaging in the traditional manufacturing sector to one that also provides modern services in the tertiary sector.

Based on the above, the Directors (other than members of the Independent Board Committee, who will express their opinion after having considered the recommendation from the Independent Financial Adviser), consider that the terms of the Agreement have been entered into on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Company and the Vendor are both controlled by HNA Group, the Vendor is deemed to be a connected person of the Company, the Acquisition contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, the Agreement and the transactions contemplated thereunder.

The Vendor is, at the date of this announcement, directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group.

During the extraordinary general meeting of the Shareholders and separate class meetings of holders of H shares of the Company and holders of A shares of the Company held on 5 June 2017, resolutions have been passed to approve, among others, the issue and allotment of 155,830,000 new H shares of the Company and the Subscription of the same by the Subscriber.

The Subscriber is wholly owned by HNA Guoshang Hotel Management Company Limited (海南國商酒店管理有限公司), which in turn is owned as to 76.92% by the Vendor and 23.08% by HNA Tourism Group. Accordingly, both the Vendor and the Subscriber are associates of and deemed to be controlled by HNA Group.

On 30 December 2019, the Company signed a side letter with the Subscriber agreeing to extend the long stop date of the Subscription to 30 June 2020. Upon completion of the Subscription, HNA Group will indirectly hold 7.92% of the A shares of the Company and 15.14% of the H shares of the Company.

For further details of the Subscription, please refer to the announcement and circular of the Company dated 5 April 2017 and 21 April 2017, respectively.

As Beijing Haihongyuan, which controls over the voting right in respect of its shares in the Company, is an associate of and controlled by HNA Group and thus has a material interest in the connected transaction contemplated under the Agreement, it is required to abstain from voting at the EGM in respect of the Agreement and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, no other Shareholder has a material interest in the Acquisition and no other Shareholder is required to abstain from voting at the EGM to approve the resolution(s) in respect of the Agreement and the transactions contemplated thereunder.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong, has been established to advise the Independent Shareholders regarding the Agreement and the transactions contemplated thereunder, and as to whether the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Agreement.

The Independent Board Committee will form its view in respect of the terms of the Acquisition after obtaining and consideration the advice from the Independent Financial Adviser. BaoQiao Partners Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

A circular, containing, among other things, (i) details of the Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) the Property Valuation Report; (v) the Target Company Valuation Report; and (vi) a notice to convene the EGM, will be despatched to the Shareholders on or before 15 May 2020 in compliance with the Listing Rules.

Shareholders and potential investors of the Company should note that the Completion is subject to the fulfillment (or waiver, if applicable) of the conditions precedent as set out in the section headed "Conditions Precedent" in this announcement, and the Completion may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Acquisition”	the proposed acquisition of the Sale Interests by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement;
“Agreement”	the equity transfer agreement dated 26 April 2020 entered into between the Purchaser and the Vendor in relation to the Acquisition;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Beijing Haihongyuan”	Beijing Haihongyuan Investment Management Co., Ltd. (北京海鴻源投資管理有限公司), a company established in the PRC with limited liability and holder of approximately 9.33% of the shares of the Company as at the date of this announcement, which is wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group;
“Board”	the Board of Directors;
“Business Day(s)”	day(s) on which commercial banks are open for business in the PRC (excluding Saturdays, Sundays and public holidays);
“Company”	Northeast Electric Development Co., Ltd. (東北電氣發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose A Shares and H Shares are listed on the Shenzhen Stock Exchange and main board of the Stock Exchange, respectively;
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;

“Consideration”	the consideration payable by the Purchaser to the Vendor for the Sale Interests, being RMB48.9 million (equivalent to approximately HK\$53.5 million);
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if though fit, approve the Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HNA Group”	HNA Group Co., Ltd. (海航集團有限公司), a company established in the PRC with limited liability;
“HNA Hotel Group”	HNA Hotel Group Limited* (海航酒店(集團)有限公司), a company established in the PRC with limited liability, which is under the control of HNA Group;
“HNA Tourism Group”	HNA Tourism Group Limited (海航旅遊集團有限公司), a company established in the PRC with limited liability, which is directly owned as to 69.96% by HNA Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder;

“Independent Financial Adviser”	BaoQiao Partners Capital Limited, a corporation licensed to carry 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 appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder;
“Independent Shareholders”	the Shareholders who are not required under the Listing Rules to abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder, being, as at the date of this announcement, Shareholders other than Beijing Haihongyuan;
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Group and its connected persons in accordance with the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan);
“Property”	the building located at No.2, West Jialing Bridge Village, Yuzhong District, Chongqing, the PRC;
“Property Valuation Report”	a valuation report on the Property prepared by an independent valuer;

“Purchaser”	Hainan Garden Lane Flight Hotel Management Co., Ltd., (海南逸唐飛行酒店管理有限公司) (formerly known as Hainan Tangyuan Technology Co., Ltd. (海南唐苑科技有限公司)), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company, which is indirectly owned as to 99% by the Company and 1% by Shanghai Yizhou;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Interests”	30% of the equity interests in the Target Company;
“Shanghai Yizhou”	Shanghai Yizhou Investment Management Co., Ltd. (上海驛舟投資管理有限公司), a company incorporated in the PRC with limited liability, which is wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group;
“Substantial Shareholder(s)”	has the meaning ascribed to it in the Listing Rules;
“Shareholder(s)”	the holder(s) of the shares of the Company;
“sq.m.”	square metres;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	HNA Hotel Group (Hong Kong) Company Limited (海航酒店集團(香港)有限公司), a company incorporated in Hong Kong with limited liability, being the subscriber of the Subscription, which is wholly owned by HNA Guoshang Hotel Management Company Limited (海南國商酒店管理有限公司), which in turn is owned as to 76.92% by the Vendor and 23.08% by HNA Tourism Group;

“Subscription”	the subscription by the Subscriber for 155,830,000 H shares of the Company to be issued and allotted by the Company pursuant to the subscription agreement dated 5 April 2017 entered into between the Company and the Subscriber;
“Target Company”	Chongqing HNA Hotel Investment Company Limited* (重慶海航酒店投資有限公司), a company established in the PRC with limited liability;
“Target Company Valuation Report”	a valuation report on the Target Company prepared by an independent valuer;
“Vendor”	HNA Hotel Holding Group Company Limited* (海航酒店控股集團有限公司), a company established in the PRC with limited liability, which is a direct non-wholly owned subsidiary of Beijing Haihongyuan; and
“%”	per cent.

In this announcement, translation of RMB into HKD was based on the exchange rate of RMB0.9138 to HK\$1. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

* *The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.*

By Order of the Board
Northeast Electric Development Co., Ltd
Zhu Jie
Chairman

Haikou, Hainan Province, the PRC

26 April 2020

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