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# 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)

### ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION FOR EXECUTION OF AGREEMENT ON COMPENSATION FOR LAND EXPROPRIATION

#### AGREEMENT ON COMPENSATION FOR LAND EXPROPRIATION

The board of directors (the “**Board**”) of Northeast Electric Development Co., Ltd. (the “**Company**”) is pleased to announce that Fuxin Enclosed Busbar Co., Ltd. (“**Fuxin Busbar**”, a wholly-owned subsidiary of the Company), entered into the Agreement on Compensation for Land Expropriation (the “**Agreement on Compensation for Land Expropriation**”) with Haizhou House Expropriation Office of Fuxin (the “**Expropriation Office**”, a public institution under Haizhou District People’s Government, Fuxin, Liaoning Province) on 26 April 2020, pursuant to which, the Expropriation Office will expropriate the South Plant (the “**South Plant**”, including land, industrial properties, structures and supporting facilities) owned by Fuxin Busbar, at No. 46 Xinhua Road, Haizhou District, Fuxin, Liaoning Province. The total compensation for Fuxin Busbar as a result of the expropriation is RMB44 million (equivalent to approximately HKD48,150,580).

#### IMPLICATIONS UNDER THE LISTING RULES

The expropriation transaction does not constitute a connected transaction of the Company under the Listing Rules of the Hong Kong Stock Exchange and the Listing Rules of the Shenzhen Stock Exchange.

All percentage ratios in the size tests for this expropriation transaction are less than 25%, thus it constitutes a discloseable transaction and is subject to the notification, reporting and announcement requirements under Chapter 14 of the Listing Rules of the Hong Kong Stock Exchange. Meanwhile, according to Article 9.3 of the Rules Governing the Listing of Shares on Shenzhen Stock Exchange (revised in April 2019), after the calculation of the transaction size, the profit from the expropriation transaction (calculated in absolute value in case of a negative net profit) will account for more than 50% of the Company's net profit in the latest accounting year and will exceed RMB5 million. This expropriation transaction shall be considered and approved at the general meeting.

The execution of the Agreement on Compensation for Land Expropriation was approved at the thirteenth meeting of the 9th Board of the Company held on 26 April 2020. The Directors have confirmed that the terms of the agreement are fair and reasonable, and the transactions contemplated under the agreement are concluded on normal commercial terms and in the interests of the Company and shareholders as a whole.

## **I. Overview**

### **(I) Particulars of the Transaction**

After Fuxin Busbar, a wholly-owned subsidiary of the Company, was relocated to the new plant at No. 369 Yulong Road, Hexi Village, Sihe Township, Xihe District, Fuxin in 2018, its South Plant (the “**South Plant**”, including land, industrial properties, structures and supporting facilities) at No. 46 Xinhua Road, Haizhou District, Fuxin, Liaoning Province falls into the expropriation scope planned and approved by Fuxin People's Government.

For the purposes of active cooperation with the implementation of urban planning, and protecting the interests of all shareholders and core assets of the listed company at the same time, Fuxin Busbar entered into the Agreement on Compensation for Land Expropriation with Haizhou House Expropriation Office of Fuxin (the “**Expropriation Office**”, a public institution under Haizhou District People's Government of Fuxin), pursuant to which, the Expropriation Office will expropriate the above-mentioned plant owned by Fuxin Busbar. The total compensation for Fuxin Busbar as a result of the expropriation is RMB44 million.

### **(II) No relationship between the counterparty and the Company**

As Haizhou House Expropriation Office of Fuxin, a public institution under Haizhou District People's Government of Fuxin, is a third party independent of the listed company and its connected party, the transaction does not constitute a connected transaction.

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

On 26 April 2020, the Proposal on Expropriation of the South Plant of the Subsidiary Fuxin Enclosed Busbar Co., Ltd. by the Government was considered and approved at the thirteenth meeting of the 9th Board of the Company with 8 in favor, 0 against, and 0 abstentions. The independent Directors issued independent opinions on the transaction and agreed to it unanimously.

This transaction does not constitute a connected transaction, nor does it constitute a material asset restructuring as stipulated in the Measures for the Administration of the Material Asset Restructuring of Listed Companies. Therefore, it does not require approval by the relevant regulator.

According to Article 9.3 of the Rules Governing the Listing of Shares on Shenzhen Stock Exchange (revised in April 2019), after the calculation of the transaction size, the profit from the expropriation transaction (calculated in absolute value in case of a negative net profit) will account for more than 50% of the Company's net profit in the latest accounting year and will exceed RMB5 million. This expropriation transaction shall be considered and approved at the general meeting.

In accordance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, after the calculation of the transaction size, all percentage ratios in the size tests for this expropriation transaction are less than 25%, so it constitutes a discloseable transaction and does not need to be submitted to the general meeting for consideration and approval.

In summary, according to the Articles of Association and the relevant regulations of the exchanges in Mainland China and Hong Kong, this expropriation transaction shall be approved at the Company's general meeting.

## **II. Profiles of the Counterparty**

The counterparty to the transaction is Haizhou House Expropriation Office of Fuxin, a public institution under Haizhou District People's Government Fuxin, Liaoning Province. It is capable of performing the agreement and paying, and has no connected relationship with the Company and its top ten shareholders in terms of property rights, business, assets, credit and debt, and personnel.

### **III. Particulars of the Underlying Assets**

- (I) The underlying assets of this expropriation are 33 industrial properties with an area of 13,952.92 square meters owned by Fuxin Busbar at No. 46 Xinhua Road, Haizhou District, Fuxin, Liaoning Province, the right to use the land with an area of 23,786 square meters within the occupied area, structures and supporting facilities in the plant, and temporary resettlement fees.
- (II) These assets were industrial land acquired by Fuxin Busbar through granting in the shareholding reform in 1994. The original value of the land and properties obtained was approximately RMB13.92 million and the book value on the base date of evaluation of 3 January 2020 was approximately RMB3.94 million.
- (III) Restrictions on the rights of mortgage, seizure, freezing and others of the underlying assets: On 5 November 2019, Fuxin Busbar and Fuxin Branch of Bank of China Limited entered into the Maximum Mortgage Contract, where Fuxin Busbar gained a mortgage loan of RMB12 million from Fuxin Branch of Bank of China Limited with all lands and 7 buildings in the South Plant as collaterals.

### **IV. Pricing Policy and Basis of the Transaction**

The pricing of the expropriation transaction is on normal commercial terms, following fair and reasonable pricing principles, and in the interests of the Company and shareholders as a whole.

Fuxin Busbar entrusted Liaoning Tianli Bohai Real Estate Land Property Evaluation Co., Ltd. to evaluate the underlying assets. Based on the real estate expropriation valuation report (Liaoning Tianli Bohai (2020) Fang Gu Zi Di Fu No. 0003) issued by it, the value of the assets to be expropriated reaches RMB30.8036 million if taking 3 January 2020 as the base date of evaluation.

Both parties entered into the transaction agreement based on the principles of voluntariness, fairness and mutual benefit, which conforms to the principles of fairness and reasonableness without any damages to the interests of the Company and all minority shareholders.

## **V. Main Contents of the Agreement Involving Fuxin Busbar**

Party A: Haizhou House Expropriation Office of Fuxin

Party B: Fuxin Enclosed Busbar Co., Ltd.

### **(I) Scope of expropriation compensation**

Party B's 33 industrial properties with an area of 13,952.92 square meters at No. 46 Xinhua Road, Haizhou District, Fuxin, the right to use the land with an area of 23,786 square meters within the occupied area, structures and supporting facilities in the plant, and temporary resettlement fees.

### **(II) Amount of expropriation compensation**

Within the scope of the above expropriation, Party A will provide Party B with a lump-sum monetary compensation based on the Evaluation Report and the negotiation results between the municipal government and Party B, including a compensation of RMB44 million (in words: Renminbi forty four million yuan) paid to Party B.

### **(III) Arrangement for expenses related to retired employees**

In order to ensure that the land expropriation and demolition not only meet the needs of the government, but also properly settle the retired employees, which is conducive to maintaining social stability, both parties agree as follows on the arrangement for expenses related to retired employees after the expropriation: a total of RMB7,460,000 (in words: Renminbi seven million four hundred and sixty thousand yuan) (this figure is based on that the transfer of property rights occurs at the end of June 2020) shall be taken from the expropriation compensation as employee settlement expenses such as medical insurance expenses for retirees.

### **(IV) Maintenance margin**

Party B shall reserve RMB7 million (in words: Renminbi seven million yuan) from the expropriation compensation for maintenance margin to deal with issues related to the interests of the employees of Party B due to the expropriation during the protection period. The protection period shall be four months after the management of the lands expropriated is handed over to Party A.

## **(V) Payment arrangement**

After both parties have signed on this agreement, Party A shall pay a compensation of RMB 44 million (in words: Renminbi forty four million yuan) payable to Party B to the joint account established by both parties within 7 days from the date of approval of this agreement by the Board of Northeast Electric Development Co., Ltd.

## **(VI) Transfer of expropriated houses and lands**

Party B shall provide Party A with the original copies of the legal house property certificate and land ownership certificate, and the complete Asset Evaluation Report within three working days upon consideration and approval of this agreement at the general meeting of Northeast Electric Development Co., Ltd., to transfer the ownership of the expropriated lands and houses to Party A. Party B is fully responsible for the authenticity of the relevant materials provided.

## **(VII) Conditions for the agreement to come into force**

This agreement shall take into effect after being signed by both Party A and Party B, subject to consideration and approval by the Board and general meeting of Northeast Electric Development Co., Ltd.

## VI. Purposes of the Transaction and Effects on the Company

1. This expropriation will not affect the Company's production and operation as Fuxin Busbar has been relocated to a new plant for production and operation since 2018 and the production activities in the South Plant to be expropriated have been suspended. The expropriation is conducive to revitalizing idle assets, increasing liquidity and enhancing ability to continue as a going concern.
2. This expropriation will affect the Company's current profits in a positive manner. After the completion of this transaction, the Company's income from asset disposal will rise, and Fuxin Busbar, the Company's holding subsidiary, is expected to record an increase in total profit by about RMB32 million. The Company will conduct accounting treatment in accordance with the relevant provisions of the China's Accounting Standards for Business Enterprises and the International Financial Reporting Standards, with the specific accounting treatment method based on the results confirmed by the auditor in the annual audit after the transaction is completed.

Investors are advised to invest rationally and be cautious about investment risks.

Note: Any amount denominated in RMB in this announcement is translated into HKD at the rate of RMB0.9138=HKD1, for the purpose of illustration only. Such translations do not represent 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

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.*