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

If you have sold or transferred all your shares in **Northeast Electric Development Co., Ltd.**, you should at once hand this circular, together with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS
LEASE AGREEMENTS**

**(2) PROPOSED ELECTION OF DIRECTOR AND SUPERVISORS
AND**

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



Capitalised terms used in this cover page have the same meanings as defined in this circular unless the context requires otherwise.

A letter from the Board is set out on pages 7 to 25 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 26 to 27 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 41 of this circular.

A notice convening the EGM to be held at Conference Room, Floor 19, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 23 August 2021 at 10:00 a.m. is set out on pages 52 to 54 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company (in case of any holders of A Shares) or the Company's H Share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong (in case of any holders of H Shares) as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

2 August 2021

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 13 July 2021 in relation to the entering into of the Lease Agreements between the Lessors and Garden Lane Hotel and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“A Share(s)”	the domestic shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Shenzhen Stock Exchange and subscribed for and traded in RMB
“Board”	the board of Directors
“Changchun Mingmen”	Changchun Mingmen Hotel Co., Ltd.* (長春名門飯店有限公司), a company established in the PRC with limited liability
“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 the Main Board of the Stock Exchange, respectively
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Cushman & Wakefield”	Cushman & Wakefield Limited, an independent property valuer
“Dalian Changjiang”	Dalian Changjiang Plaza Co., Ltd.* (大連長江廣場有限公司), a company established in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 23 August 2021 to consider, and if thought fit, approve (i) the Lease Agreements and the transactions contemplated thereunder; and (ii) the proposed election of Director and Supervisors

DEFINITIONS

“Garden Lane Hotel”	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 limited liability company established under the laws of the PRC and an indirect non-wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas-listed foreign share(s) of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Stock Exchange and subscribed for and traded in HK\$;
“IFRS”	The International Financial Reporting Standards issued by the International Accounting Standards Board
“Independent Board Committee”	an independent board committee of the Company comprising of all the independent non-executive Directors formed for advising the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap 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 Lease Agreements and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not required to abstain from voting on resolutions to approve the Lease Agreements and the transactions contemplated thereunder at the EGM pursuant to the Listing Rules

DEFINITIONS

“Independent Third Party(ies)”	persons(s) who is(are) independent of and not connected with the Company and its connected persons
“Latest Practicable Date”	30 July 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Jilin Tourism”	Jilin Province Tourism Group Co., Ltd.* (吉林省旅遊集團有限責任公司), a company established in the PRC with limited liability
“Lease Agreement A”	the lease agreement in respect of the Leased Property A entered into between Dalian Changjiang (as lessor) and Garden Lane Hotel (as lessee) dated 13 July 2021 for a term commencing from 1 September 2021 to 31 December 2022
“Lease Agreement B”	the lease agreement in respect of the Leased Property B entered into between Changchun Mingmen (as lessor) and Garden Lane Hotel (as lessee) dated 13 July 2021 for a term commencing from 1 September 2021 to 31 December 2022
“Lease Agreement C”	the lease agreement in respect of the Leased Property C entered into between Jilin Tourism (Changbaishan Hotel* (長白山賓館)) (as lessor) and Garden Lane Hotel (as lessee) dated 13 July 2021 for a term commencing from 1 September 2021 to 31 December 2022
“Lease Agreement D”	the lease agreement in respect of the Leased Property D entered into between Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) (as lessor) and Garden Lane Hotel (as lessee) dated 13 July 2021 for a term commencing from 1 September 2021 to 31 December 2022

DEFINITIONS

“Lease Agreements”	the four lease agreements (i.e. collectively, Lease Agreement A, Lease Agreement B, Lease Agreement C and Lease Agreement D) entered into between Garden Lane Hotel and the Lessors on 13 July 2021, pursuant to which the Lessors agreed to lease the Leased Properties to Garden Lane Hotel for a term commencing from 1 September 2021 to 31 December 2022
“Leased Property A”	the premises located at No. 123, Changjiang Road, Zhongshan District, Dalian, the PRC* (中國大連市中山區長江路123號) with area of 39,365.29 square metres, leased by Dalian Changjiang (as lessor) to Garden Lane Hotel (as lessee) under the Lease Agreement A
“Leased Property B”	the premises located at No. 4501, Renmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區人民大街4501號) with area of 18,718.97 square metres, leased by Changchun Mingmen (as lessor) to Garden Lane Hotel (as lessee) under the Lease Agreement B
“Leased Property C”	the premises located at No. 1448, Xinmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區新民大街1448號) with area of 37,004.04 square metres, leased by Jilin Tourism (Changbaishan Hotel* (長白山賓館)) (as lessor) to Garden Lane Hotel (as lessee) under the Lease Agreement C
“Leased Property D”	the premises located at No. 5688, Renmin Avenue, Nanguan District, Changchun, the PRC* (中國長春市南關區人民大街5688號) with area of 33,401.97 square metres, leased by Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) (as lessor) to Garden Lane Hotel (as lessee) under the Lease Agreement D
“Leased Properties”	the properties or premises (i.e. collectively, Leased Property A, Leased Property B, Leased Property C and Leased Property D) leased by the Lessors to Garden Lane Hotel under the Lease Agreements
“Lessors”	the four lessors, namely, Dalian Changjiang, Changchun Mingmen, Jilin Tourism (Changbaishan Hotel* (長白山賓館)) and Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) which entered into the Lease Agreements with Garden Lane Hotel

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Market Rent Letter”	a letter prepared by Cushman & Wakefield containing its opinion on prevailing market rent and the fairness and reasonableness of the terms of the Lease Agreements using a market comparison approach, the full text of which is set out in Appendix I to this circular
“PRC”	the People’s Republic of China (for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Share(s)”	A Shares and H Shares
“Shareholder(s)”	the holder(s) of the Shares
“Shenzhen Listing Rules”	Rules Governing the Listing of Shares on Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	percent

In this circular, if there is any inconsistency between the Chinese names of entities or enterprises established in the PRC or Chinese government authorities or departments and their English translations, the Chinese names shall prevail.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Wang Yongfan
Mr. Bao Zongbao
Mr. Su Weiguo
Mr. Guo Qianli
Mr. Li Guoqing

Independent Non-executive Directors:

Mr. Wang Hongyu
Mr. Fang Guangrong
Mr. Li Zhengning

Registered office:

Room A1-1077, 5th Floor, Building A,
Entrepreneurship Incubation Center of Haikou
National High-tech Zone, No.266 Nanhai
Avenue, Haikou City, Hainan Province, the
PRC (Postcode: 570000)

Business and correspondence address:

22nd Floor, HNA Plaza, No.7 Guoxing Road,
Haikou City, Hainan Province, the PRC

*Head office and principal place of
business in Hong Kong:*

17/F, Winsan Tower
98 Thomson Road, Wanchai
Hong Kong

2 August 2021

To the Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS
LEASE AGREEMENTS**
**(2) PROPOSED ELECTION OF DIRECTOR AND SUPERVISORS
AND**
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to the Lease Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The primary purpose of this circular is to provide you with, among other matters, (1) particulars of the transactions contemplated under the Lease Agreements; (2) a notice of the EGM; (3) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder; (4) a letter of recommendation from the Independent Board Committee on the Lease Agreements and the transactions contemplated thereunder; and (5) other information concerning the Company as required under the Listing Rules.

This circular also aims at providing you with information regarding the proposed election of Director and Supervisors.

With a view of satisfying the operation needs of the Group, Garden Lane Hotel, an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Agreements with the Lessors on 13 July 2021, pursuant to which the Lessors agreed to lease the Leased Properties to Garden Lane Hotel for a term commencing from 1 September 2021 to 31 December 2022.

THE LEASE AGREEMENTS

Date : 13 July 2021

Lease Agreement A

Parties : 1. Dalian Changjiang (as lessor)
2. Garden Lane Hotel (as lessee)

As at the Latest Practicable Date, the Company and Dalian Changjiang are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會). Therefore, Dalian Changjiang is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

Leased Premises : Leased Property A located at No. 123, Changjiang Road, Zhongshan District, Dalian, the PRC* (中國大連市中山區長江路123號), with area of 39,365.29 square metres

LETTER FROM THE BOARD

Rental : The monthly rental payable under the lease is RMB791,666.67, (i.e. RMB9,500,000 per annum) which is not upward-adjustable by Dalian Changjiang for any reason.

Property management fees and utilities fees arising from the usage of the Leased Property A shall be borne by Garden Lane Hotel.

The rental payments are expected to be satisfied by the internal resources of the Group in its usual and ordinary course of business.

Lease Agreement B

Parties : Changchun Mingmen (as lessor)

Garden Lane Hotel (as lessee)

As at the Latest Practicable Date, the Company and Changchun Mingmen are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會). Therefore, Changchun Mingmen is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

Leased Premises : Leased Property B located at No. 4501, Renmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區人民大街4501號), with area of 18,718.97 square metres

Rental : The monthly rental payable under the lease is RMB296,071.71 (i.e. RMB3,552,860.51 per annum), which is not upward-adjustable by Changchun Mingmen for any reason.

Property management fees and utilities fees arising from the usage of the Leased Property B shall be borne by Garden Lane Hotel.

The rental payments are expected to be satisfied by the internal resources of the Group in its usual and ordinary course of business.

LETTER FROM THE BOARD

Lease Agreement C

Parties : Jilin Tourism (Changbaishan Hotel* (長白山賓館)) (as lessor)
Garden Lane Hotel (as lessee)

As at the Latest Practicable Date, the Company and Jilin Tourism (Changbaishan Hotel* (長白山賓館)) are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會). Therefore, Jilin Tourism (Changbaishan Hotel* (長白山賓館)) is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

Leased Premises : Leased Property C located at No. 1448, Xinmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區新民大街1448號), with area of 37,004.04 square metres

Rental : The monthly rental payable under the lease is RMB585,280.57 (i.e. RMB7,023,366.79 per annum), which is not upward-adjustable by Jilin Tourism (Changbaishan Hotel* (長白山賓館)) for any reason.

Property management fees and utilities fees arising from the usage of the Leased Property C shall be borne by Garden Lane Hotel.

The rental payments are expected to be satisfied by the internal resources of the Group in its usual and ordinary course of business.

Lease Agreement D

Parties : Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) (as lessor)
Garden Lane Hotel (as lessee)

As at the Latest Practicable Date, the Company and Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會). Therefore, Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

Leased Premises : Leased Property D located at No. 5688, Renmin Avenue, Nangan District, Changchun, the PRC* (中國長春市南關區人民大街5688號), with area of 33,401.97 square metres

LETTER FROM THE BOARD

Rental : The monthly rental payable under the lease is RMB528,307.83 (i.e. RMB6,339,693.91 per annum), which is not upward-adjustable by Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) for any reason.

Property management fees and utilities fees arising from the usage of the Leased Property D shall be borne by Garden Lane Hotel.

The rental payments are expected to be satisfied by the internal resources of the Group in its usual and ordinary course of business.

Common Terms

The principal common terms of the Lease Agreements are set out below:

Term : 1 September 2021 to 31 December 2022, subject to the approval of the Independent Shareholders at the EGM.

Usage : Hotel and ancillary operations.

Delivery : The Leased Properties shall be delivered by the Lessors to Garden Lane Hotel for its use before 1 September 2021.

Renewal : Garden Lane Hotel may by notice in writing to the Lessors three (3) months prior to the expiry of the initial term under the Lease Agreements indicating its intention to renew the leases thereunder. The parties may negotiate renewal conditions (including rent) and, subject to Garden Lane Hotel having completed and fulfilled its approval procedures and requirements, enter into an agreement extending the terms of the Lease Agreements for a further two (2) years.

The Lessors have undertaken to Garden Lane Hotel that upon expiry of the term of the Lease Agreements, Garden Lane Hotel shall enjoy a right of first refusal to enter into leases in respect of the Leased Properties on the basis of equal terms.

The Company will re-comply with the requirements under Chapter 14 and Chapter 14A of the Listing Rules upon the renewal of the Lease Agreements (if any).

LETTER FROM THE BOARD

Payment term	:	The rental payments and management fees (if applicable) shall be paid on a monthly basis before the 15th day of each month by way of bank transfer, cheque, bill of exchange or cash etc..
Early termination	:	Each of the parties to each Lease Agreement may by two (2) months' prior notice in writing to the other party terminate each Lease Agreement, subject to the settlement of all fees and payments due.

BASIS OF DETERMIANTION OF RENTAL PAYABLE

The rental payable under each of the Lease Agreements is determined following arm's length negotiation between each of the Lessors and Garden Lane Hotel with reference to the prevailing market rent for comparable properties in a similar location to each of the Leased Properties and the opinion as to prevailing market rent contained in the Market Rent Letter.

The Group made reference to market rents of comparable leases for properties in the vicinity of the Leased Properties. The Group had obtained at least three lease transactions as referenced lease transactions, which were selected by way of market research, such as obtaining lease transactions/quotations of properties of similar usage from open source, for instance, the "58.com app", based on the principles of timeliness, similarity of usage and comparability in terms of an array of factors including nature, quality, accessibility and urban condition in the area etc.. Based on such principles, the Company has obtained lease transaction/quotations and selected the following three referenced lease quotations for the purpose of determining the rental payable under the Lease Agreements, the details of which are set out as follows:

Referenced lease transactions within the Dalian locality

	Leased Property A	Referenced lease transactions/quotations		
		1	2	3
Date of transaction / quotation	13 July 2021	13 July 2021	13 July 2021	13 July 2021
Location	No. 123, Changjiang Road, Zhongshan District, Dalian* (大連市中山區長江路123號)	595 Zhongshan Road, Shahekou District, Dalian* (大連市沙河口區中山路595號)	9 Titan Road, Shahekou District, Dalian * (大連市沙河口區體壇路9號)	123 Changjinag Road, Zhongshan District, Dalian* (大連市中山區長江路123號)
Daily rental level	RMB0.66/square metre	RMB0.67/square metre	RMB0.85/square metre	RMB0.81/square metre
Usage	Hotel and ancillary operations	Commercial complex and residential use (including hotel and accommodation services)	Commercial complex and commercial and residential use (including hotel and accommodation services)	Commercial complex (including hotel and accommodation services)
Distance from Leased Property A	N/A	Within 10 kilometres	Within 10 kilometres	Same location as Leased Property A

LETTER FROM THE BOARD

	Leased Property A	Referenced lease transactions/quotations		
		1	2	3
Urban planning position	Zhongshan District is a finance, economic and cultural centre of Dalian	Shahekou District is a commercial centre of Dalian	Shahekou District is a commercial centre of Dalian	Zhongshan District is a finance, economic and cultural centre of Dalian
Accessibility	En-route metro railway line	En-route metro railway line	En-route metro railway line	En-route metro railway line
Quality	Interior and exterior renovation and refurbishment, building structure and facilities and layout within the property fit for carrying out hotel and accommodation services	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property A	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property A	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property A

Referenced lease transactions within the Changchun locality

	Leased Property B	Leased Property C	Leased Property D	Referenced lease transactions/quotations		
				1	2	3
Date of transaction / quotation	13 July 2021	13 July 2021	13 July 2021	13 July 2021	13 July 2021	13 July 2021
Location	No. 4501, Renmin Avenue, Chaoyang District, Changchun* (長春市朝陽區人民大街4501號)	No. 1448, Xinmin Avenue, Chaoyang District, Changchun* (長春市朝陽區新民大街1448號)	No. 5688, Renmin Avenue, Nanguan District, Changchun* (長春市南關區人民大街5688號)	338 Liberty Avenue, Nanguan District, Changchun* (長春南關區解放大路338號)	1035 Industrial and Agricultural Avenue, Chaoyang District, Changchun* (長春朝陽區工農大路1035號)	4111 Renmin Avenue, Chaoyang District, Changchun* (長春朝陽區人民大街4111號)
Daily rental level	RMB0.52/square metre	RMB0.52/square metre	RMB0.52/square metre	RMB0.5/square metre	RMB0.6/square metre	RMB0.6/square metre
Usage	Hotel and ancillary operations	Hotel and ancillary operations	Hotel and ancillary operations	Office, commercial and residential use (including hotel and accommodation services)	Office, commercial and residential use (including hotel and accommodation services)	Office, commercial and residential use (including hotel and accommodation services)

LETTER FROM THE BOARD

	Leased Property B	Leased Property C	Leased Property D	Referenced lease transactions/quotations		
				1	2	3
Distance from Leased Property B, Leased Property C and Leased Property D	N/A	N/A	N/A	Within five (5) kilometres from each of the Leased Property B, Leased Property C and Leased Property D	Within three (3) kilometres from each of the Leased Property B, Leased Property C and Leased Property D	Within five (5) kilometres from each of the Leased Property B, Leased Property C and Leased Property D
Urban planning position	Chaoyang District is the technology, cultural, economic, and commercial centre of Changchun	Chaoyang District is the technology, cultural, economic, and commercial centre of Changchun	Nanguan District is the administrative centre and a centralised district of the future modernised circle of Changchun	Nanguan District is the administrative centre and a centralised district of the future modernised circle of Changchun	Chaoyang District is the technology, cultural, economic, and commercial centre of Changchun	Chaoyang District is the technology, cultural, economic, and commercial centre of Changchun
Accessibility	En-route metro railway line	En-route metro railway line	En-route metro railway line			
Quality	Interior and exterior renovation and refurbishment, building structure and facilities and layout within the property fit for carrying out hotel and accommodation services	Interior and exterior renovation and refurbishment, building structure and facilities and layout within the property fit for carrying out hotel and accommodation services	Interior and exterior renovation and refurbishment, building structure and facilities and layout within the property fit for carrying out hotel and accommodation services	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property B, Leased Property C and Leased Property D	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property B, Leased Property C and Leased Property D	Similar quality as to interior and exterior renovation and refurbishment, building structure and facilities and layout within the property compared to Leased Property B, Leased Property C and Leased Property D

Based on the factors set out above, the Company considers that the referenced lease transactions/quotations were selected on a fair and reasonable basis, by reference to factors including location, usage, quality, facilities and infrastructure, urban planning position and accessibility, as comparable lease transactions for the determination of the rental payable under the Lease Agreements. As the rental payable to the Lessors under all the Lease Agreements are within or lower than the range of market rental levels in the referenced lease transactions considered by the Company, the Company is of the view that the rental payable under each of the Lease Agreements is no less favourable to the Group compared to prevailing market rent in respect of each of the Leased Properties.

LETTER FROM THE BOARD

Cushman & Wakefield, an independent property valuer, was engaged by the Company to review the terms of the Lease Agreements after carrying out necessary market research and enquiries. Pursuant to the Market Rent Letter, it was of the opinion that: (i) the rent payable under the Lease Agreements are fair and reasonable and within the range of market rent of comparable properties in a similar location prevailing at the commencement of the Lease Agreements; (ii) the Lease Agreements are on normal commercial terms or better after arm's length negotiations between the parties with reference to the prevailing market terms and conditions; and (iii) the Lease Agreements are on terms that are fair and reasonable and in the interests the Company and its Shareholders as a whole.

Taking into account the above-mentioned, the Company is of the view that the Lease Agreements and the transactions contemplated thereunder are conducted on normal commercial terms or better and are fair and reasonable and in the interests the Company and its Shareholders as a whole.

THE BOARD'S ASSESSMENT ON THE LEASE TERM

The lease term for each of the Lease Agreements is approximate one year and four months, which was determined on an arm's length basis between the Group and the Lessors. The Lease Agreements and the transactions contemplated thereunder were entered into as a continued strategic effort of the Company's transformation into a modern services provider. Against the backdrop of the gradual recovery in the demand for hotel catering and accommodation services in the PRC following the containment of COVID-19 pandemic, the Company is guided by the principles of prudence and flexibility in any further development of and/or engagement in its hotel catering and accommodation operation. The Company considers that the agreed term of lease under each of the Lease Agreements is consistent with the Company's overriding business strategy, as the Company is afforded with sufficient room to flexibly adjust its strategies in accordance with its business needs depending on market and objective conditions. In addition, the Company could also enjoy the benefit of avoiding an onerous long-term commitment, which would in turn allow the Group to embark upon different paths and make available to the Group different options upon the end of the lease terms. In particular, in view of the relatively short lease terms, the Lessors have upon the request of the Group undertaken to Garden Lane Hotel that upon expiry of the term of the Lease Agreements, Garden Lane Hotel shall enjoy a right of first refusal to enter into leases in respect of the Leased Properties for a further two (2) years term on the basis of equal terms and conditions. The Board considers the said right of first refusal offers flexibility in business operation to the Group by enabling the Group a preferential right for the extension of the leases, and hence gives an option to the Group should it be beneficial to the Group and consistent with the Group's business direction to continue the hotel and accommodation operations. The Leased Properties are currently used for hotel and ancillary operations and contain largely all relevant foundational and ancillary facilities, which is expected to substantially reduce the initial investment of the Group in refurbishment, outfitting and equipment and shorten the preparatory time before the Lease Properties become fully operational. Based on the above, the Directors consider it is commercially sound for the Group to have a shorter lease term with a right to renew and accordingly are of the view that the lease term as agreed in each Lease Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

RIGHT-OF-USE ASSETS

Pursuant to IFRS16, the Group will recognise rental payments under the Lease Agreements as right-of-use assets. Accordingly, the entering into of each of the Lease Agreements is regarded as a one-off acquisition of assets of the Group for the purposes of the Listing Rules.

The estimated value of the right-of-use assets to be recognised by the Company, as compared to the total rental payable, under each of the Lease Agreements is set out below:

Lease Agreement	Total rental payable (RMB)	Estimated value of the right-of-use assets (RMB)
Lease Agreement A	12,666,666.67	11,551,741.04
Lease Agreement B	4,737,147.34	4,161,642.76
Lease Agreement C	9,364,489.06	8,540,222.58
Lease Agreement D	8,452,925.21	7,708,894.99
Total	<u>35,221,228.27</u>	<u>31,962,501.37</u>

The estimated value of the right-of-use assets disclosed above represents the present value of the aggregate lease payments to be made under the Lease Agreements and calculated by discounting the lease payments using the rate applicable at the commencement date of the Lease Agreements in accordance with IFRS16, being the incremental borrowing rate of 6.175%.

Shareholders should note that the above disclosed estimated value of right-of-use assets is unaudited and may be subject to adjustment in the future.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENTS

The Group is principally engaged in research and development, design, production and sales businesses of products related to power transmission and transformation equipment as well as hotel catering and accommodation services. As disclosed in the annual report of the Company for the year ended 31 December 2020, it has been the Company's business plan since 2018 to drive a transformation of its business model from traditional manufacturing into modern service industry.

LETTER FROM THE BOARD

In view of its business strategy, 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. The Group has entered into lease agreements in 2018 with its connected persons with a view of expanding into catering and related business fields. The Lease Agreements are a part of, and are in line with, the Group's business plan to maintain and enhance its development in the hotel-related business segment. Building on the Leased Properties as a foundation, the Group will improve and optimise customer experience and attractiveness by providing value-added services such as decoration and upgrade of public spaces, introduction of intelligent management system and development of operation sharing platform of mid-to-high end hotel public spaces (including conference reservation platform, high-end catering reservation platform and sports and recreation reservation platform), each intending to boost the Group's turnover and profitability in terms of its catering and accommodation services.

The Lease Agreements were entered into by the Group in order to provide the Group with stable premises for its hotel catering and accommodation services operations. The Company considers that the leases under the Lease Agreements would allow the Group to utilise the Leased Properties for its hotel catering and accommodation services operations and realise diversification of operations of the Group. In addition, the Company is of the view that by leveraging the abundant experience and professional knowledge possessed by the Directors and senior management of the Company in hotel operation and management, the Lease Agreements and the transactions contemplated thereunder would offer the Group with a solid foundation for the development of its catering and accommodation services .

Taking into account the gradual recovery in the demand for hotel catering and accommodation services following the containment of COVID-19 pandemic in the PRC and the opportunities presented to the Company in the first year of the "14th Five-year Plan", the leases under the Lease Agreements would support the development of the hotel catering and accommodation services operations and optimise the Group's income structure, which will maximise the interest of the Shareholders and will not be prejudicial to the interest of the Company and the minority Shareholders.

Moreover, the Company has also taken into account that the rents and terms under the Lease Agreements are commensurate with prevailing market rents and terms and are no less favourable to the Group than those available from Independent Third Parties.

The Directors (including the independent non-executive Directors who have taken into account the opinion of the Independent Financial Adviser) are of the view that Lease Agreements and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group, and the terms of which are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

The Lease Agreements and the transactions contemplated thereunder were approved at the 22nd meeting of the 9th session of the Board held on 13 July 2021. As Mr. Zhu Jie, Mr. Wang Yongfan and Mr. Bao Zongbao hold positions within HNA Tourism Group Limited* (海航旅遊集團有限公司) and its subsidiaries, they are deemed to have material interest in and have therefore abstained from voting on the resolutions of the Board approving the Lease Agreements and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES

Information on the Company and the Group

The Company is a joint stock limited company established in the PRC with limited liability. The Group is principally engaged in research and development, design, production and sales businesses of products related to power transmission and transformation equipment as well as hotel catering and accommodation services.

Information on Dalian Changjiang

Dalian Changjiang is a company established in the PRC with limited liability and is principally engaged in accommodation service, refreshment, entertainment and sports operations. Its *de facto* controller is Hainan Province Cihang Foundation* (海南省慈航公益基金會) The shareholders holding 10% or more equity interest in Dalian Changjiang are HNA Tourism Group Limited* (海航旅遊集團有限公司) and Hainan Guoshang Hotel Management Co., Ltd.* (海南國商酒店管理有限公司), both of which are ultimately controlled by Hainan Province Cihang Foundation* (海南省慈航公益基金會). As at the Latest Practicable Date, HNA Tourism Group Limited*(海航旅遊集團有限公司) and Hainan Guoshang Hotel Management Co., Ltd.* (海南國商酒店管理有限公司) held approximately 44.44% and 51.11% of the equity interest in Dalian Changjiang, respectively.

Information on Changchun Mingmen

Changchun Mingmen is a company established in the PRC with limited liability and is a wholly-owned subsidiary of Jilin Tourism. It is principally engaged in the business of hospitality and refreshments, ancillary malls and travelling services, conference services and renting services. It is a direct wholly-owned subsidiary of Jilin Tourism and its *de facto* controller is Hainan Province Cihang Foundation* (海南省慈航公益基金會).

Information on Jilin Tourism

Jilin Tourism is a company established in the PRC with limited liability and is principally engaged in hospitality and refreshment, conference service, exhibition service, travelling agency service, hotel management and property development. Its *de facto* controller is Hainan Province Cihang Foundation* (海南省慈航公益基金會) The shareholders holding 10% or more equity interest in Jilin Tourism are HNA Tourism Group Limited* (海航旅遊集團有限公司) (approximately 42.33%), Beijing Capital Airline Co., Limited* (北京首都航空有限公司) (approximately 41%) and HNA Group (approximately 16.67%), each of which is ultimately controlled by Hainan Province Cihang Foundation* (海南省慈航公益基金會).

LETTER FROM THE BOARD

Information on Hainan Province Cihang Foundation* (海南省慈航公益基金會)

Hainan Province Cihang Foundation* (海南省慈航公益基金會), which is the *de facto* controller of the Lessors and the Company, is a non-profit organisation mainly engaging in medical assistance, disaster relief, education assistance, environmental protection and other charitable activities.

LISTING RULES IMPLICATIONS

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, Beijing Haihongyuan Investment Management Co., Ltd.* (北京海鴻源投資管理有限公司) (“**Beijing Haihongyuan**”) holds 81,494,850 A Shares, representing approximately 9.33% of the equity interest in the Company. Beijing Haihongyuan is wholly-owned by HNA Tourism Group Limited* (海航旅遊集團有限公司), which is in turn owned as to 69.96% by HNA Group Co. Ltd.* (海航集團有限公司) (“**HNA Group**”). HNA Group is owned as to 70% by Hainan Traffic Administration Holdings Company Limited* (海南交管控股有限公司), which is in turn owned as to 50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司) (“**Tang Dynasty Development (Yangpu)**”). Tang Dynasty Development (Yangpu) is owned as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會).

As the Company and the Lessors are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會), the Lessors are deemed to be connected persons of the Company, and the Lease Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and related party transactions under the Shenzhen Listing Rules.

Pursuant to IFRS16, leases shall be recognised as right-of-use assets in the Group's consolidated statement of financial position. Accordingly, the entering into of each Lease Agreement will be regarded as a one-off acquisition of assets of the Group for the purposes of the Listing Rules. As the Lease Agreements were entered into between the Group and Lessors controlled by a common *de facto* controller, the transactions contemplated under the Lease Agreements are to be aggregated as if they were one transaction pursuant to Rules 14.22 and 14A.81 of the Listing Rules.

Given that one or more of the applicable percentage ratios in respect of the Lease Agreements based on the estimated value of right-of-use assets recognised by the Group pursuant to IFRS16 exceed 5% but all are less than 25%, the Lease Agreements, on an aggregate basis, constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

LETTER FROM THE BOARD

PROPOSED ELECTION OF DIRECTOR AND SUPERVISORS

Proposed Election of Director

As nominated by Beijing Haihongyuan, the largest Shareholder, and at the recommendation of the nomination committee of the Company, it was resolved by the Board to propose Mr. Shang Duoxu (尚多旭) to be elected as an executive Director for a term commencing from the date on which the resolution is passed at the EGM and ending upon the expiration of the term of office of the ninth session of the Board (i.e. 10 March 2022).

Biographical details of Mr. Shang Duoxu (尚多旭) are set out as follows:

Mr. Shang Duoxu (尚多旭), born in 1986, Chinese nationality, no permanent residency abroad, graduated from Tulane University with a master's degree in financial management. Served as Chief Financial Officer of Hainan Island All-in-One Card Exchange Marketing Management Co., Ltd., Deputy General Manager of Planning and Finance Department of HNA Real Estate Holdings (Group) Co., Ltd., General Manager of Planning and Finance Department of Hainan Supply and Marketing Daji Holding Co., Ltd., Chief Financial Officer of HNA Logistics Group Co., Ltd., Chief Financial Officer of HNA Infrastructure Investment Group Co., Ltd., Director of HNA Innovation Co., Ltd., etc. He is currently the Chief Financial Officer of the Company; and a Director of Hainan Silk Road Basic Industry Investment Co., Ltd., a Director of HNA Basic Industry Group Co., Ltd., and a Director of HNA Basic Holding Group Co., Ltd., all constituting connected persons of the Company under the Listing Rules.

Mr. Shang Duoxu will enter into a service agreement with the Company in respect of his position as an executive Director after the resolution in relation to his election is passed by the Shareholders at the EGM. The remuneration of Mr. Shang Duoxu will be determined at the recommendation of the remuneration committee of the Company and in accordance with the remuneration policies of the Company, and will be disclosed in the annual reports of the Company. The remuneration of Mr. Shang Duoxu as the Chief Financial Officer of the Company is RMB500,000 (pre-tax), which was determined by the Board based on the senior management remuneration policy of the Company. The total average annual remuneration of all members of the 9th session of Board of the Company during their term of office shall not exceed RMB6,000,000 (after tax) for each financial year.

Mr. Shang Duoxu does not hold any equity interest in the Company and is a related party of Beijing Haihongyuan, the Company's largest Shareholder and its de facto controller. He has never been punished by the China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He is not on the list of dishonest persons. His qualification to exercise his functions and powers conforms with laws and regulations such as the Company Law and the articles of association of the Company.

LETTER FROM THE BOARD

Save as disclosed above, as at the Latest Practicable Date, Mr. Shang Duoxu did not (i) hold any other positions in the Company or other members of the Group or any directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years; (ii) have any relationship with any other Directors, Supervisors, senior management, substantial shareholders or controlling shareholders (as defined under the Listing Rules) of the Company; or (iii) have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there are no other matters relating to the proposed election of Mr. Shang Duoxu that need to be brought to the attention of the Shareholders, and there is no other information which is discloseable under Rules 13.51(2)(h) to (v) of the Listing Rules.

Proposed Election of Shareholders' Representative Supervisors

As nominated by Beijing Haihongyuan, the largest Shareholder, and at the recommendation of the nomination committee of the Company, it was resolved by the Board to propose each of Mr. Xing Zenghai (邢增海) and Mr. Yang Qing (楊青) to be elected as a Shareholders' representative Supervisor for a term commencing from the date on which the resolution is passed at the EGM and ending upon the expiration of the term of office of the ninth session of the supervisory committee of the Company (i.e. 10 March 2022).

Biographical details of the Shareholders' representative Supervisors candidates are set out as follows:

Mr. Xing Zenghai (邢增海), born in 1987, with Chinese nationality and without the right of permanent residence abroad, graduated from Zhongnan University of Economics and Law, majoring in human resources, with a master's degree. He used to be the information disclosure manager of Hainan HNA China Travel Business Management Co., Ltd., and the human resources manager of Hainan Yitang Flying Hotel Management Co., Ltd. He is currently the head of the Human Resources and Administration Department of Hainan HNA International Hotel Management Co., Ltd.

Mr. Yang Qing (楊青), born in 1982, with Chinese nationality and without the right of permanent residence abroad, graduated from Liaoning University of Technology with a bachelor's degree in engineering majoring in mechanical design, and an intermediate engineer. He used to be a technician and deputy director of the technology research and development department of Fuxin Enclosed Busbar Co., Ltd. He is currently the deputy chief engineer and head of the technology research and development department of Fuxin Enclosed Busbar Co., Ltd.

Each of Mr. Xing Zenghai and Mr. Yang Qing will enter into a service agreement with the Company in respect of his position as a Shareholders' representative Supervisor after the resolution in relation to his election is passed by the Shareholders at the EGM. The remuneration of each of Mr. Xing Zenghai and Mr. Yang Qing will be determined at the recommendation of the remuneration committee of the Company and in accordance with the remuneration policies of the Company, and will be disclosed in the annual reports of the Company. The total average annual remuneration of all members of the 9th session of the supervisory committee of the Company during their term of office shall not exceed RMB800,000 (after tax) for each financial year.

LETTER FROM THE BOARD

Each of the above-mentioned candidates for Shareholders' representative Supervisors does not hold any equity interest in the Company and is not a related party of Beijing Haihongyuan, the Company's largest Shareholder and its de facto controller. They have never been punished by the China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. They are not on the list of dishonest persons. Their qualifications to exercise his functions and powers conforms with laws and regulations such as the Company Law and the articles of association of the Company.

Save as disclosed above, as at the Latest Practicable Date, each of the above-mentioned candidates for Shareholders' representative Supervisors did not (i) hold any other positions in the Company or other members of the Group or any directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years; (ii) have any relationship with any other Directors, Supervisors, senior management, substantial shareholders or controlling shareholders (as defined under the Listing Rules) of the Company; or (iii) have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there are no other matters relating to the proposed election of the above-mentioned candidates for Shareholders' representative Supervisors that need to be brought to the attention of the Shareholders, and there is no other information which is discloseable under Rules 13.51(2)(h) to (v) of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors has been formed to consider the terms of the Lease Agreements and the transactions contemplated thereunder so far as the interests of the Company and the Independent Shareholders are concerned as a whole. Mr. Wang Hongyu, Mr. Fang Guangrong and Mr. Li Zhengning, being all the independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. To the best of knowledge, information and belief of the Directors, no member of the Independent Board Committee has any material interest in the Lease Agreements and the transactions contemplated thereunder. A letter from the Independent Board Committee is set out on pages 26 to 27 of this circular.

INDEPENDENT FINANCIAL ADVISER

Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder. A letter from the Independent Financial Adviser is set out on pages 28 to 41 of this circular.

LETTER FROM THE BOARD

EGM

The EGM will be convened and held at Conference Room, Floor 19, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 23 August 2021 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve (i) the Lease Agreements and the transactions contemplated thereunder; and (ii) the proposed election of Director and Supervisors.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company (in case of any holders of A Shares) or the Company's H Share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong (in case of any holders of H Shares) as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

In order to confirm the list of holders of H Shares of the Company who are entitled to attend the EGM, the register of members of the Company (H Shares) will be closed from Wednesday, 18 August 2021 to Monday, 23 August 2021 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares whose names appear on the register of members of the Company (H Shares) by 4:30 p.m. on 17 August 2021 are entitled to attend and vote at the EGM.

As at the Latest Practicable Date, Beijing Haihongyuan holds 81,494,850 A Shares, representing approximately 9.33% of the equity interest in the Company. It and the Lessors are controlled by the common *de facto* controller, namely Hainan Province Cihang Foundation* (海南省慈航公益基金會), therefore, Beijing Haihongyuan is considered to be materially interested in and is required to abstain from voting at the EGM in respect of the Lease Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholder has a material interest in the Lease Agreements and the transactions contemplated thereunder and no Shareholder is required to abstain from voting at the EGM in respect of Lease Agreements and the transactions contemplated thereunder.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll in accordance with the Listing Rules and the articles of association of the Company. The poll results will be announced in accordance with Rule 13.39(5) of the Listing Rules after the conclusion of the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 26 to 27 of this circular and the letter from the Independent Financial Adviser set out on pages 28 to 41 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions regarding the Lease Agreements and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors who have taken into account the opinion of the Independent Financial Adviser) consider that the Lease Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company and on normal commercial terms or better, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who have taken into account the opinion of the Independent Financial Adviser) recommend all Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM.

The Directors also consider that the proposed election of Director and Supervisors set out above are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

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

Shareholders and potential investors of the Company should note that the final consummation of the transactions under the Lease Agreements is subject to the approval of the Independent Shareholders at the EGM, and the transactions under the Lease Agreements may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

Yours Faithfully,
For and on behalf of the Board of Directors of
Northeast Electric Development Co., Ltd.
Su Weiguo
Director



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)

2 August 2021

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
LEASE AGREEMENTS**

We refer to the circular issued by the Company to its shareholders dated 2 August 2021 (the “Circular”) of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Lease Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the Circular.

Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Shareholders and us in respect of the terms of the Lease Agreements and the transactions contemplated thereunder. Details of the Independent Financial Adviser’s advice and the principal factors and reasons they have taken into consideration in giving such advice are set out on pages 28 to 41 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 7 to 25 of the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Lease Agreements and the transactions contemplated thereunder, the advice of the Independent Financial Adviser and the principal factors and reasons taken into consideration by the Independent Financial Adviser, we are of the opinion that the terms of the Lease Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company and on normal commercial terms or better, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, therefore, recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve and ratify the terms of the Lease Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Northeast Electric Development Co., Ltd.

Mr. Wang Hongyu
*Independent non-executive
Director*

Mr. Fang Guangrong
*Independent non-executive
Director*

Mr. Li Zhengning
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

2 August 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 2 August 2021 (the “**Circular**”). Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, Garden Lane Hotel, an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Agreements with the Lessors on 13 July 2021, pursuant to which the Lessors agreed to lease the Leased Properties to Garden Lane Hotel for a term commencing from 1 September 2021 to 31 December 2022.

To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, Beijing Haihongyuan Investment Management Co., Ltd.* (北京海鴻源投資管理有限公司) (“Beijing Haihongyuan”) holds 81,494,850 A Shares, representing 9.33% of the equity interest in the Company. Beijing Haihongyuan is wholly-owned by HNA Tourism Group Limited* (海航旅遊集團有限公司), which is in turn owned as to 69.96% by HNA Group Co. Ltd.* (海航集團有限公司) (“**HNA Group**”). HNA Group is owned as to 70% by Hainan Traffic Administration Holding Company Limited* (海南交管控股有限公司), which is in turn owned as to 50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司) (“**Tang Dynasty Development (Yangpu)**”). Tang Dynasty Development (Yangpu) is owned as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會).

As the Company and the Lessors are controlled by the common de facto controller, namely Hainan Province Cihang Foundation (海南省慈航公益基金會), the Lessors are deemed to be connected persons of the Company, and the Lease Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and related party transactions under the Shenzhen Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to IFRS 16, leases shall be recognised as right-of-use assets in the Group's consolidated statement of the financial position. Accordingly, the entering into of each Lease Agreement will be regarded as a one-off acquisition of assets of the Group for the purposes of the Listing Rules. As the Lease Agreements were entered into between the Group and Lessors controlled by a common de facto controller, the transaction contemplated under the Lease Agreements are to be aggregated as if they were one transaction pursuant to Rules 14.22 and Rule 14A.81 of the Listing Rules.

Given that one or more of the applicable percentage ratios in respect of the Lease Agreements based on the estimated value of right-of-use assets recognised by the Group pursuant to IFRS16 exceed 5% but all are less than 25%, the Lease Agreements, on an aggregate basis, constitute a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the directors, chief executives and substantial shareholders of the Company or any of their respective subsidiaries or associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any members of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders.

During the last two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Group or the Group or any of their respective associates. Accordingly, we consider ourselves eligible to act as the independent financial adviser to the Company under the requirements of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors and management of the Company on the terms of the Lease Agreements, including the information and representations contained in the Circular. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company and their respective associates nor have we carried out any independent verification of the information supplied to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Lease Agreements and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into of the Lease Agreements

Background information of the parties of the Lease Agreements

Dalian Changjiang is a company established in the PRC with limited liability and is principally engaged in accommodation service, refreshment, entertainment and sports operations.

Changchun Mingmen is a company established in the PRC with limited liability and is a wholly-owned subsidiary of Jilin Tourism. It is principally engaged in hospitality and refreshments, ancillary malls and travelling services, conference services and renting services.

Jilin Tourism is a company established in the PRC with limited liability and is principally engaged in hospitality and refreshment, conference service, exhibition service, travelling agency service, hotel management and property development.

Hainan Province Cihang Foundation* (海南省慈航公益基金會), which is the *de facto* controller of the Lessors, is a non-profit organisation mainly engaging in medical assistance, disaster relief, education assistance, environmental protection and other charitable activities.

Reasons for and benefits of the entering into of the Lease Agreements

The Company is a joint stock limited company incorporated in the PRC with limited liability. The Group is principally engaged in research and development, design, production and sales businesses of products related to power transmission and transformation equipment as well as hotel catering and accommodation services.

As set out in the 2020 Annual Report, the global economy in 2020 was hit adversely due to the continuous impact of the spreading of COVID-19 pandemic. Although the PRC became the only major economy with positive economic growth in the world, the economic growth of its mechanical industries was at a slow rate and the recovery in investments in its power sector was slow throughout the year. In view of the current economic situation, the Company has been actively adjusting its business structure to market changes and needs including but not limited to actively exploring for business opportunities in the hotel catering and accommodation services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group has commenced its hotel catering and accommodation services since 2018 with its first attempt being the leasing of hotel public spaces and consumption spaces in July 2018 for the development of the Group's catering business through decorating and upgrading the public spaces and rebuilding the consumption spaces. In August 2019, the Group further expanded its hotel-related segment through entering into of the venue lease agreement to create a characteristic and boutique airport hotel at Kunming Airport to further promote the transformation of the Company from traditional manufacturing to modern service industry. Besides, as mentioned in the 2020 Annual Report, the Company completed the acquisition of the minority interests in Chongqing HNA Hotel Investment Co., Ltd (the "**HNA Hotel Acquisition**") on 26 August 2020 which is in line with the Group's plan to enhance its investment and development in the hotel-related business segment and to develop upstream and downstream businesses within the hotel and hospitality industry.

With a view of satisfying the operation needs of the Group, Garden Lane Hotel, an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Agreements with the Lessors on 13 July 2021, pursuant to which the Lessors agreed to lease the Leased Properties to Garden Lane Hotel for a term commencing from 1 September 2021 to 31 December 2022.

As stated in the Letter from the Board, 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. The Lease Agreements are a part of, and are in line with, the Group's business plan to maintain and enhance its development in the hotel-related business segment. Building on the Leased Properties as a foundation, the Group will improve and optimise customer experience and attractiveness by providing value-added services such as decoration and upgrade of public spaces, introduction of intelligent management system and development of operation sharing platform of mid-to-high end hotel public spaces (including conference reservation platform, high-end catering reservation platform and sports and recreation reservation platform), each intending to boost the Group's turnover and profitability in terms of its catering and accommodation services.

The Lease Agreements were entered into by the Group in order to provide the Group with stable premises for its hotel catering and accommodation services operations. The Company considers that the leases under the Lease Agreements would (i) optimise customer experience and attractiveness by providing value-added services and hence boosting the Group's turnover and profitability in terms of its catering and accommodation services; (ii) allow the Group to continue to utilise the Leased Properties for its hotel catering and accommodation services operations and realise diversification of operations of the Group; and (iii) optimise the Group's income structure, which will maximise the interest of the Shareholders and will not be prejudicial to the interest of the Company and the minority Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Leased Properties are located in the Zhongshan District of Dalian City, Liaoning Province and Chaoyang District and Nanguan District of Changchun City, Jilin Province of the PRC. Liaoning Province and Jilin Province are situated on the northern-eastern side of the PRC. Jilin Province and Liaoning Province are both border provinces in the PRC and an important window for the PRC's "Belt and Road Initiative" to connect to markets in north-eastern Asia.

Based on our desktop research, we noted that each of the Leased Properties are located in central business districts of the corresponding cities and are close to high-rise office buildings, hotels and scenic spots. Leased Property A is located adjacent to Tianjin Street and Qingniwa District, which encompasses the main business and commercial centre of Dalian City and the scenic parts of the city's southern coastline. Leased Property B, Leased Property C and Leased Property D are situated in the centre of the provincial capital to draw on the strong catchment of tourists as it is very close to a number of local landmarks, including the Eight Grand Ministries and Changchun Wuhuan Gymnasium.

According to the statistics from the National Bureau of Statistics of China (the "Statistics") published on 28 February 2021 (<http://www.stats.gov.cn/tjsj/>), nominal gross domestic product ("GDP") in the PRC has been increasing at compound annual growth rate ("CAGR") of approximately 8.0% between 2016 and 2020, while GDP of Jilin Province has been increasing at CAGR of approximately 4.2%, from approximately RMB1.04 trillion in 2016 to approximately RMB1.23 trillion in 2020. With reference to the Statistics, the per capita disposable income in Jilin Province in 2020 recorded approximately RMB69,434, representing CAGR of approximately 7.2% as compared to the same of approximately RMB52,530 in 2016, whereas the GDP of Liaoning Province showed an increasing trend of CAGR at approximately 5.3% during the period from 2016 to 2020 and the per capita disposable income in Liaoning Province in 2020 recorded approximately RMB32,738, representing CAGR of approximately 5.9% as compared to the same of approximately RMB52,530 in 2016. The economic growth of Liaoning Province and Jilin Province has exhibited a stable trend in recent years. Therefore, with a relatively high per capita GDP in these provinces, the Group can benefit from local tourism in the PRC by operating hotels and operating catering business during the recovery of the economy in the PRC after the easing of the COVID-19 pandemic.

Moreover, the PRC government has introduced favorable measures to support its long-term strategy in promoting the hospitality management industry. As stated in the "Outline of the 14th Five-Year Plan for Cultural and Tourism Industry Development" (《“十四五”文化和旅遊發展規劃》) published by the Ministry of Culture and Tourism of the PRC on 29 April 2021, the policy emphasises on promoting the level of tourism factor including catering industry, hotel industry, travel service industry and entertainment industry. Specifically, the policy aimed to promote structural optimisation and brand building within hotel industry to enhance hotel-related service and cultivate a number of competitive accommodation brands, and promote the development of hotel industry as a whole. The policy aims to accelerate the industrialisation, modernisation and globalisation process of the PRC's hotel-related industry, improve the reputation of hospitality industry and facilitate the development of the mass catering service industry in the PRC. It is expected that the PRC government will continue to provide support for the hotel business in the PRC and promote the PRC to become world-class tourist attraction across the world, and hence, the hotel-related business will benefit from the development of tourism in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are of the view that the entering into of the Lease Agreements, together with the HNA Hotel Acquisition and other investments made by the Company in the provision of the catering and accommodation services, would allow the Company to (i) leverage on the resources, management experience and expertise of the Company and its various related parties in the hotel industry; and (ii) enrich the Company's hotel management portfolio and geographical presence to expand the Group's business in the catering and accommodation services segment.

2. The principal terms of the Lease Agreements

Set out below is a summary of the principal terms for the Lease Agreements. Independent Shareholders are advised to read further details of the Lease Agreements as disclosed in section headed "The Lease Agreements" in the Letter from the Board.

	Lease Agreement A	Lease Agreement B	Lease Agreement C	Lease Agreement D
Parties:	<ol style="list-style-type: none"> Dalian Changjiang (as lessor) Garden Lane Hotel (as lessee) 	<ol style="list-style-type: none"> Changchun Mingmen (as lessor) Garden Lane Hotel (as lessee) 	<ol style="list-style-type: none"> Jilin Tourism (Changbaishan Hotel* (長白山賓館)) (as lessor) Garden Lane Hotel (as lessee) 	<ol style="list-style-type: none"> Jilin Tourism (Zijinghua Hotel* (紫荊花飯店)) (as lessor) Garden Lane Hotel (as lessee)
Leased Premises:	Leased Property A located at No. 123, Changjiang Road, Zhongshan District, Dalian, the PRC* (中國大連市中山區長江路123號), with area of 39,365.29 square metres	Leased Property B located at No. 4501, Renmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區人民大街4501號), with area of 18,718.97 square metres	Leased Property C located at No. 1448, Xinmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區新民大街1448號), with area of 37,004.04 square metres	Leased Property D located at No. 5688, Renmin Avenue, Nangan District, Changchun, the PRC* (中國長春市南關區人民大街5688號), with area of 33,401.97 square metres
Monthly Rental Payable:	RMB791,666.67 (RMB9,500,000 per annum)	RMB296,071.71 (RMB3,552,860.51 per annum)	RMB585,280.57 (RMB7,023,366.79 per annum)	RMB528,307.83 (RMB6,339,693.91 per annum)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Lease Agreement A

Lease Agreement B

Lease Agreement C

Lease Agreement D

Property management fees and utilities fees: Property management fees and utilities fees arising from the usage of each of the Leased Properties shall be borne by Garden Lane Hotel.

Term: 1 September 2021 to 31 December 2022

The parties of each Lease Agreement may negotiate renewal conditions (including rent) and, subject to Garden Lane Hotel having completed and fulfilled its approval procedures and requirements, enter into an agreement extending the terms of the Lease Agreements for a further two (2) years.

Usage: Hotel and ancillary operations

As set out in the Letter from the Board, the rental payable under each of the Lease Agreements is determined following arm's length negotiation between each of the Lessors and Garden Lane Hotel with reference to the prevailing market rent for comparable properties in a similar location to each of the Leased Properties and the opinion as to prevailing market rent contained in the Market Rent Letter.

The Group has made reference to market rents of comparable leases for properties in the vicinity of the Leased Properties. The Group had obtained at least three lease transactions quotations as referenced lease transactions, which were selected by way of market research such as obtaining transaction of properties of similar usage from open source, for instance, the "58.com app", based on the principles of timeliness, similarity of usage and comparability in terms of an array of factors including nature, quality, accessibility and urban condition in the area etc.. Details of the reference lease quotations are set out in the section headed "Basis of Determination of Rental Payable" in the Letter from the Board. Based on the sourced daily market rental levels of leases in the Dalian locality and the Changchun locality provided by the management of the Group, the rental payable to the Lessors under each of Lease Agreements are within or lower than the range of market rental levels in the referenced lease transactions obtained by the Company.

For our due diligence purpose, we have obtained and reviewed the referenced lease transactions on its selected location, similarity of usage and date of transactions. We noted that each set of the referenced lease transactions (i) has been sourced with latest update at the date of the Lease Agreements where we are of the view that the quoted price are representative for the prevailing market price; and (ii) has been selected with consideration of location, usage, quality, terms of facilities and infrastructure, urban planning position and accessibility, which is comparable with the Lease Agreements with same exposure in population density, passenger flow and business activities. In light of the aforementioned, we are of the view that the referenced lease transactions represent a comparable set of reference in supporting the reasonableness of market rental levels presented in the Lease Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, the Company is of the view that the rental payable under the Lease Agreements is no less favourable to the Group compared to prevailing market rent in respect of the Leased Properties.

Market Rent Letter

We have discussed with the management of the Company the principal terms of the Lease Agreements, as set out above, which the Directors consider to be on normal commercial terms, and in line with the prevailing market practices in the PRC. Further, the Company has appointed Cushman & Wakefield to review the terms of the Lease Agreements and form an independent view on whether the Lease Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Assessment of Cushman & Wakefield's view

Cushman & Wakefield stated in its Market Rent Letter that taking into account the market condition and the terms of the Lease Agreements, they are of the opinion that (i) the rent payable under the Lease Agreements are fair and reasonable and within the range or market rent of comparable properties in a similar location prevailing at the commencement of the Lease Agreements; (ii) the Lease Agreements are on normal commercial terms or better after arm's length negotiations between the parties with reference to the prevailing market terms and conditions; and (iii) the Lease Agreements are on terms that are fair and reasonable and in the interests the Company and its Shareholders as a whole.

We have reviewed and enquired into Cushman & Wakefield's qualification and experience in assessing the terms of lease agreements in the PRC through (i) reviewing their engagement letter (including their scope of work); (ii) reviewing and phone-interviewing the qualification of Cushman & Wakefield including its previous experience in conducting property valuation; and (iii) enquiring the current and previous working relationship between Cushman & Wakefield, the Company, the Lessors and the respective connected persons. We understood that the Cushman & Wakefield is internationally-established valuation firm with solid experience in conducting property valuation and market rent assessment. The leader of the project team is a Registered Professional Surveyor, MHKIS, member of RICS and a registered China Real Estate Appraiser (中國房地產估價師) and possesses over 28 years' experience in property valuation projects in the PRC. Cushman & Wakefield confirmed that it is a third party independent of the Company and its connected persons. Moreover, we have reviewed the terms of engagement of Cushman & Wakefield, in particular its scope of work and noted that the purpose of which is to provide the Company with opinion of the market rent and to prepare the Market Rent Letter. We further noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the view of the monthly rent of the Leased Properties given by Cushman & Wakefield in the Market Rent Letter. We have performed the work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to Cushman & Wakefield and its work as regards of the monthly rent of the Leased Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also discussed with Cushman & Wakefield the work it has performed and the methodology, bases and assumptions and adjustments adopted in arriving at its conclusion in the Market Rent Letter as to the monthly rent of the Leased Properties, including desktop search of the comparable properties, review of the asking rentals of comparable properties and discussion with Cushman & Wakefield the adjustments made.

According to the Market Rent Letter, in assessing the fairness and reasonableness of the monthly rent of the Leased Properties, Cushman & Wakefield has adopted the direct comparison approach in its assessment by making reference to comparable market rent evidences in similar locations in its market rent assessment. This approach rests on the wide acceptance of the market rent evidences as the best indicator and pre-supposes that evidence of relevant rent evidences in the marketplace can be extrapolated to similar properties, subject to allowances for variable factors. During our discussion with Cushman & Wakefield and the review on the Market Rent Letter, we understand how the monthly rent was being derived and how the comparable properties of similar character and location were weighed against market rent of the Leased Properties. We have also reviewed the list of comparable properties identified by the Cushman & Wakefield for each of the Lease Properties. We discussed with the Cushman & Wakefield and noted that the selection criteria of the comparable properties include (i) the location; and (ii) the property usage. We further noted that (i) the location of the comparable properties are in the same locality within 5 kilometers of the relevant Lease Properties; and (ii) the information of the comparable properties are sourced from several property agents and Cushman & Wakefield's property database.

Moreover, we have discussed with the Cushman & Wakefield on the valuation methodology applied. We have enquired on whether the methodology are generally accepted as assessment of the monthly rent and noted that the direct comparison approach was adopted on the basis that (i) it is commonly accepted for rent assessment with similar nature to the Leased Properties; (ii) the direct comparison approach incorporates market value and reflects current market conditions; and (iii) there are sufficient transaction records for conducting market comparison.

In the course of performing the assessment, Cushman & Wakefield confirmed that they had complied with all the requirements of the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors. Cushman & Wakefield's assessment of the fair rent has been made on the assumption that the lessor leases the properties in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the rental of the properties. We have obtained the certificate of title of the Leased Properties and enquired the legal adviser of the Company and are advised that there are no aforesaid arrangements on the Leased Properties. Based on the above, we have not identified any major issues that would cause us to doubt the fairness and reasonableness of the assumptions applied in the Market Rent Letter.

In light of the above, we consider that the methodology, basis and assumptions adopted by Cushman & Wakefield in assessing the monthly rent are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment of the duration of the Lease Agreements

Pursuant to the Lease Agreements, each of the Lessors under the Lease Agreements agreed to lease out the property for a term starting from 1 September 2021 to 31 December 2022. In this regard, we have obtained from the management of the Company and reviewed ten sample copies of the existing leasing agreements entered from July 2018 between the respective Lessors and other independent third parties for the properties located in the respective Leased Properties which were mainly leased for office, catering and retail operation (the “**Comparable Leasing Agreements**”). We are of the view that the three-year horizon of the sample copies represent sufficient review period to reflect the market trend of similar transactions. Moreover, since the comparison of the Comparable Leasing Agreements are on the same premise basis where proximity and age are similar, and different functions of the hotels in office, catering and retail operation are included in our selection, we are of the view that the sample copies of the Comparable Leasing Agreements are fair and representative samples.

We noted that the duration for Comparable Leasing Agreements ranged from 1 to 12 years. Accordingly, the duration for each of the Lease Agreements of approximate 1.3 years was within the range, while at the low end of the duration represented by the Comparable Leasing Agreements. However, having discussed with the management of the Company and considering (i) the Leased Properties are currently used for hotel and ancillary operations, where the initial investment of the Group in refurbishment, outfitting and equipment are substantially reduced, which make it commercially sound for the Group to have a shorter lease term with flexibility to renew when desirable; together with (ii) upon expiry of the term of the Lease Agreements, Garden Lane Hotel shall enjoy a right of first refusal in respect of the Leased Properties on the basis of equal terms as undertaken by each of the Lessors, we consider that extra protection and flexibility in business operation has been given to the Group to safeguard the interests of the Company and the Independent Shareholders.

Assessment of the rentals of the Leased Properties

As mentioned in the Letter from the Board, the rent of each of the Leased Properties under each of the Lease Agreements was determined after arm’s length negotiation with reference to the market rental for comparable properties located at similar locations. According to the Lease Agreement A, the daily rent payable for Leased Property A, which is located in Dalian, is RMB0.66 per square metre. According to the Lease Agreement B, Lease Agreement C and Lease Agreement D, the daily rent payable for each of Leased Property B, Leased Property C, and Leased Property D, which are located in Changchun, is RMB0.52 per square. meter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In this regard, we have obtained from the management of the Company and reviewed the sample copies of the Comparable Leasing Agreements, we noted that (i) the market rent levels quoted under the Comparable Leasing Agreements for leases in the Lease Property A, which is located in Dalian, range from RMB2.52 to RMB3.34 per sq.m.; and (ii) those in the Lease Property B, Leased Property C, and Leased Property D, which are located in Changchun, range from RMB0.57 to RMB25.79 per sq.m.. We noted that the daily rentals payable per sq.m. under Leased Agreement A of RMB0.66 per sq.m. and that of the Lease Agreement B, Lease Agreement C and Lease Agreement D of approximately RMB0.52 per sq.m.. While the Comparable Leasing Agreements mainly consist of units of the premises that are leased for the nature of office, catering and retail operation, which may lead to a higher rent as compared to the lease of whole premise for the Leased Properties, given that the rent payable are compared on the same premise for the Leased Properties, we are of the view the rent quoted under the Comparable Leasing Agreements and are applicable for comparison and Shareholders' general reference.

In addition, based on our desktop research on 58.com Inc., a leading life service platform in the PRC, on quoted price of the rental of commercial and residential properties in the nearby locations in the same locality of each of the Leased Properties (the "**Rental Comparables**") on the Latest Practicable Date, we noted that (i) the daily rent payable per sq.m. for Zhongshan District, Dalian City for comparison against Lease Property A ranged from RMB0.8 to RMB5.0; (ii) the daily rent payable per sq.m. for the Chaoyang District, Changchun City for comparison against Lease Agreement B and Lease Agreement C ranged from RMB1.0 to RMB4.1; and (iii) the daily rent payable per sq.m. for the Nanguan District, Changchun City for comparison against Lease Agreement D ranged from RMB1.0 to RMB4.3. We noted that the Rental Comparables mainly consist of units of the premises that are leased for the nature of office, catering and retail operation, which may lead to a higher rent as compared against the lease of whole premise for the Leased Properties. Nevertheless, we are of the view that the rent payable of the same district reflect the prevailing market price of the same locality and are applicable for comparison and Shareholders' reference purposes. We noted that the daily rentals payable per sq.m. for Leased Property A of RMB0.66 per sq.m. and that of Leased Property B, Leased Property C, and Leased Property D of RMB0.52 per sq.m. are no less favourable to that of the commercial and residential properties in the nearby locations in the same district under the Rental Comparables for each of the Leased Properties.

3. Internal Control Procedures

As advised by the management of the Company, we have been briefed about the procedures in arriving at the quotes for the leasing transaction. We have reviewed relevant internal control policies and the objectives of the policies, among others, are to evaluate and review the implementation of the quotation procedures for leasing. In addition, as mentioned above, we have obtained and reviewed the relevant lease terms of the properties under (i) the sample copies of the Comparable Leasing Agreements; and (ii) the quotations of the reference lease transactions in the nearby locations provided by the management of the Company. We are given to understand from the management of the Company that the internal control policies and the pricing mechanism in the quotation procedures for leasing have been put in place and are followed by the finance departments of the Group for entering the leasing transactions.

The senior management of the Company would review the work done by relevant staff to ensure that all the internal control policies and the quotation procedures for leasing are properly performed by responsible staff and the comparative quotes obtained by the Group represent the prevailing market rentals with reference to the public research regarding the property market in the PRC and public quotation of independent real estate agencies. The decision for whether accepting or rejecting the quotes will be made by the senior management of the Company upon the abovementioned procedures. We have obtained the relevant assessment record and the referenced lease transactions provided by the management of the Company and noted that the Company has performed such assessment before entering of the Lease Agreements.

Having considered the above, in particular, the review of the relevant lease terms of the properties under (i) the sample copies of the Comparable Leasing Agreements; and (ii) the quotations of the referenced lease transactions provided by the management of the Company, we are of the view that the internal control policies and quotation procedures for leasing are sufficient to ensure that the quotation will be comparable to the prevailing market rates.

Given that (i) the duration of the Lease Agreements provided extra protection and flexibility in business operation has been given to the Group to safeguard the interests of the Company and the Independent Shareholders; and (ii) the daily rentals payable under each of the Lease Agreements are fair, reasonable and are no less favourable to the Group than the prevailing market rates of the Rental Comparables for each of the Leased Properties; and (iii) the relevant internal control policies and quotation procedures for leasing have been in place for the leasing transactions as a set of guideline for the Company to follow, we are of the view that the terms of the Lease Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Financial effect on the Group

(i) Right-of-use asset and lease liability

Pursuant to Paragraph 26 of the IFRS 16, the estimated value of the right-of-use assets represents the present value of the aggregate lease payments to be made under the Lease Agreements and was calculated by discounting the lease payments using the interest rate implicit in the lease if that rate can be readily determined, or, if that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, which refers to the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment.

The estimated value of the right-of-use assets will be recognised as right-of-use asset in the Group's consolidated statement of financial position at the commencement date of the Lease Agreements. As such, the assets and liabilities of the Group will be increased by approximately RMB32.0 million respectively, reflecting the recognition of the right-of-use asset and the corresponding lease liability, and the net asset value of the Group will remain the same upon the Lease Agreements become effective.

In assessing the reasonableness of the estimated value of the right-of-use asset (the "**Estimated Value**"), we have reviewed the calculation of the right-of-use assets and we noted that the Estimated Value represents the discounting of the total monthly rents of the Lease Properties payable during the lease term with the incremental borrowing rate of the Group (the "**Discount Rate**").

The fairness and reasonableness of the monthly rents of the Lease Properties were assessed and discussed in the sub-section headed "Assessment of the rentals of the Leased Properties" of this letter. In respect of the Discount Rate, we noted that since an implicit interest rate of lease cannot be determined pursuant to the Lease Agreements, the incremental borrowing rate of the Group of 6.175% was adopted, which was determined with reference to (a) the 1-5-year benchmark lending rate of the People's Bank of China of 4.75%; and (b) an upward adjustment from the Group's loan agreements, representing the borrowing rate of the Group for a period similar to the lease term. Therefore, we are of the view that the Estimated Value, comprising the Discount Rate and the total monthly rents of the Lease Properties, is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Cash flow*

As at 31 December 2020, the Group had cash at banks and in hand of approximately RMB12.9 million. As advised by the management of the Company, the cash balance of the Group will decrease by the total capital commitment for the Leased Properties of approximately RMB35.2 million, being the total rental for 16 months from 1 September 2021 to 31 December 2022, which will be financed by (i) the Group's internal resources including the cash at banks and in hand; (ii) cash inflow from the operation of the Leased Properties; and (iii) the facility provided by Beijing Haihongyuan, the details of which were announced by the Company on 3 March 2021 and the resolution was passed on 24 March 2021.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the Lease Agreements have been entered into within the ordinary and usual course of the Group's business based on normal commercial terms or better, and the terms under the Lease Agreements are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Lease Agreements and the respective transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.



27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry BayHong Kong

2 August 2021

The Board of Directors
Northeast Electric Development Co., Ltd.
17/F, Winsan Tower
98 Thomson Road
Wanchai
Hong Kong

Dear Sirs,

**Re: Northeast Electric Development Co., Ltd. (東北電氣發展股份有限公司) (the “Company”)
Review of four lease agreements, with the connected parties to the Company, in respect of
four leased properties (the “Lease Agreements”)**

Instructions, Purpose & Valuation Date

In accordance with the instructions from Northeast Electric Development Co., Ltd. (the “Company”) for us to advise on the rent and other commercial terms of the Lease Agreements dated 13 July 2021 leased by Hainan Garden Lane Flight Hotel Management Co., Ltd.* (海南逸唐飛行酒店管理 有限公司) (“Garden Lane Hotel”) (formerly known as Hainan Tangyuan Technology Co., Ltd.* (海南唐 苑科技有限公司)), an indirect non-wholly-owned subsidiary of the Company, in the People’s Republic of China (the “PRC”), we confirm that we have made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of on the rent and other commercial terms of the Lease Agreements.

* If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC or Chinese government authorities or departments and their English translations, the Chinese names shall prevail..

The principal terms of the Lease Agreements

Set out below is a summary of the principal terms for the Lease Agreements dated 13 July 2021:

	Lease Agreement A	Lease Agreement B	Lease Agreement C	Lease Agreement D
Lessor (connected persons of the Company)	Dalian Changjiang Plaza Co., Ltd.* (大連長江廣場有限公司)	Changchun Mingmen Hotel Co., Ltd.* (長春名門飯店有限公司)	Jilin Province Tourism Group Co., Ltd.* (吉林省旅遊集團有限責任公司) (Changbaishan Hotel)	Jilin Province Tourism Group Co., Ltd.* (吉林省旅遊集團有限責任公司) (Zijinghua Hotel)
Lessee (an indirect non-wholly-owned subsidiary of the Company)	Garden Lane Hotel			
Leased Premises	Leased Property A located at No. 123, Changjiang Road, Zhongshan District, Dalian, the PRC* (中國大連市中山區長江路123號)	Leased Property B located at No. 4501, Renmin Avenue, Chaoyang District, Changchun, the PRC	Leased Property C located at No. 1448, Xinmin Avenue, Chaoyang District, Changchun, the PRC* (中國長春市朝陽區新民大街1448號)	Leased Property D located at No. 5688, Renmin Avenue, Nanguan District, Changchun, the PRC* (中國長春市南關區人民大街5688號)
Leased area (square metres)	39,365.29	18,718.97	37,004.04	33,401.97
Monthly Rental Payable (RMB)	RMB791,666.67 (RMB9,500,000 per annum)	RMB296,071.71 (RMB3,552,860.51 per annum)	RMB585,280.57 (RMB7,023,366.79 per annum)	RMB528,307.83 (RMB6,339,693.91 per annum)
Equivalent Daily Rent (RMB per square metre)	0.66	0.52	0.52	0.52
Property management fees and utilities fees	Property management fees and utilities fees arising from the usage of each of the Leased Properties shall be borne by Garden Lane Hotel.			
Term	1 September 2021 to 31 December 2022 The parties of each Lease Agreement may negotiate renewal conditions (including rent) and, subject to Garden Lane Hotel having completed and fulfilled its approval procedures and requirements, enter into an agreement extending the terms of the Lease Agreements for a further two (2) years.			
Usage	Hotel and ancillary operations			

Approach to Conclusion

In assessing the fairness and reasonableness of the monthly rent of the Leased Properties, we have adopted the direct comparison approach by making reference to comparable market rent evidences in similar locations in the market rent assessment. This approach rests on the wide acceptance of the market rent evidences as the best indicator and pre-supposes that evidence of relevant rent evidences in the marketplace can be extrapolated to similar properties, subject to allowances for variable factors. In the course of performing the assessment we have complied with all the requirements of the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors. Our assessment of the fair rent has been made on the assumption that the lessor leases the properties in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the rental of the properties.

Source of Information

We have relied to a very considerable extent on the information given by the Company as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of the properties, tenancy details, floor areas and all other relevant matters.

Dimension, measurements and areas included in this letter are based on the information provided to us and are therefore only approximation. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided by the Company with copies of documents in relation to the current title to the properties. However, we have not been able to conduct searches to verify the ownership of the properties; we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Company.

Currency

Unless otherwise stated, all sums stated in our letter is in Renminbi, the official currency of the PRC.

Conclusion

We have reviewed the terms of the Lease Agreements and carried out the necessary market research and enquiries. Taking into account the market condition and the terms of the Lease Agreements; we are of the opinion that:

The Lease Agreements

- (i) the rent payable under the Lease Agreements are fair and reasonable and within the range or market rent of comparable properties in a similar location prevailing at the commencement of the Lease Agreements;
- (ii) the Lease Agreements are on normal commercial terms or better after arm's length negotiations between the parties with reference to the prevailing market terms and conditions; and
- (iii) the Lease Agreements are on terms that are fair and reasonable and in the interests the Company and its shareholders as a whole.

In conclusion, none of the above-said rents and other commercial terms of the Tenancy Agreements listed in this letter appear to be unfair, unreasonable or unfavorable to the Company.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 28 years' experience in the valuation of properties in the PRC.

(A) RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

(B) DISCLOSURE OF INTERESTS**(a) Directors' and chief executive's interests**

As at the Latest Practicable Date, none of the Directors, proposed directors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company.

(b) Substantial shareholders' and other persons' interests in the Shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed directors and chief executives of the Company, Shareholders who had interests or short positions in the Shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Name of Shareholder	Capacity	Long Position/ Short Position	Number of Shares	Approximate% of issued share capital of the Company (Note 1)
Beijing Haihongyuan Investment Management Co., Ltd* (北京海鴻源投資管理有限公司)	Beneficial owner (Note 2)	Long Position	81,494,850 A Shares	9.33%
HNA Tourism Group Limited* (海航旅遊集團有限公司)	Interest of controlled corporation (Note 2)	Long Position	81,494,850 A Shares	9.33%
HNA Group Co. Ltd.* (海航集團有限公司)	Interest of controlled corporation (Note 2)	Long Position	81,494,850 A Shares	9.33%
Hainan Traffic Administration Holdings Company Limited* (海南交管控股有限公司)	Interest of controlled corporation (Note 2)	Long Position	81,494,850 A Shares	9.33%
Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司)	Interest of controlled corporation (Note 2)	Long Position	81,494,850 A Shares	9.33%
Hainan Province Cihang Foundation* (海南省慈航公益基金會)	Interest of controlled corporation (Note 2)	Long Position	81,494,850 A Shares	9.33%

Notes:

- The percentage is calculated on the basis of 873,370,000 Shares in issue as at the Latest Practicable Date.
- To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, such Shares are held by Beijing Haihongyuan Investment Management Co., Ltd.* (北京海鴻源投資管理有限公司), which is owned as to 100% by HNA Tourism Group Limited* (海航旅遊集團有限公司). HNA Tourism Group Limited* (海航旅遊集團有限公司) is owned as to 69.96% by HNA Group Co. Ltd.* (海航集團有限公司), which is owned as to 70% by Hainan Traffic Administration Holding Company Limited* (海南交管控股有限公司). Hainan Traffic Administration Holding Company Limited* (海南交管控股有限公司) is owned as to 50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司), which is in turn owned as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會).

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(C) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(D) MATERIAL ADVERSE CHANGE

As disclosed in the announcement of the Company dated 30 January 2021, it was expected to record net profit attributable to shareholders of the listed company in the range of RMB54 million to RMB70 million, with a year-on-year increase of RMB94.17 million to RMB110.17 million; while it was expected that the owner's equity attributable to the parent company would be in the range of RMB-180 million to RMB-150 million at the end of 2020, with a year-on-year decrease of RMB93.41 million to RMB123.41 million.

As disclosed in the announcement of the Company dated 29 March 2021, due to the continuous impact of the global public health emergency on aviation and hotel sectors since 2020, HNA Group, the indirect controlling shareholder of the Company, and its related parties had been exposed to a relatively high liquidity risk. According to the Company's announcements dated 29 January 2021, 10 February 2021 and 15 March 2021 and the annual report of the Company published on 29 April 2021, (the "Announcements") respectively, the Hainan Higher People's Court (the "Court") has ruled that the claim for reorganisation of HNA Group and its related parties by the relevant creditor has been accepted. In order to give a true, objective and fair view of the financial position and asset values of the Group as at 31 December 2020, according to the relevant requirements of the Accounting Standards and the Company's accounting policies and accounting estimates, the Company made provision of loss allowance of RMB71,765,302.96 for deposits of HNA Finance Company and recognises net loss from interest in associates of RMB48,900,000.00 on long-term equity investment, which accordingly reduces the net profit and net assets for the current period; in addition, the Company recognises losses of RMB198,078,808.21 on fair value changes in financial assets designated at fair value through other comprehensive income, thus reducing the net assets for the current period. In the opinion of the Directors, the court ruling may have an influence on the shareholding structure of the Company and it is uncertain whether the bankruptcy reorganisation of HNA Group will be successfully completed. However, the bankruptcy reorganisation of HNA Group will not materially or adversely affect the daily production and operations of the Group.

Save as disclosed above (please refer to the Announcements and the annual report of the Company published on 29 April 2021 for further details of the events disclosed above), the Directors confirm that there had been no material adverse change in the financial or trading position or outlook of the Group since 31 December 2020 (the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

(E) COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, proposed directors of the Company or their respective close associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

(F) DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date:

- (a) save for the Lease Agreements, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting, which was significant in relation to the business of the Group; and
- (b) save for the Lease Agreements, none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(G) EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

NAMES	QUALIFICATIONS
Octal Capital Limited	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
Cushman & Wakefield Limited	Independent professional valuer

Each of the above experts has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its letter/report dated 2 August 2021 in the form and context in which it is included and all references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which have been, since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

(H) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at 17/F., Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong for a period from the date of this circular to the EGM (both days inclusive):

1. this circular;
2. the articles of association of the Company;
3. the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
4. the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from Independent Board Committee” in this circular;
5. the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from Independent Financial Adviser” in this circular;
6. the written consents referred to in the paragraph headed “Experts’ Qualifications and Consents” in this appendix;
7. the Market Rent letter, the text of which is set out in Appendix II to this circular; and
8. the Lease Agreements.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Northeast Electric Development Co., Ltd. (the “**Company**”) will be held at Conference Room, Floor 19, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 23 August 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular to the shareholders of the Company dated 2 August 2021 (the “**Circular**”).

ORDINARY RESOLUTIONS

1. “THAT:

- (a) the Lease Agreements and the consummation of transactions contemplated thereunder as more particularly described in the Circular and on the terms and conditions set out in the Lease Agreements be and are hereby approved, ratified and confirmed; and
- (b) authorisation be granted to any one or more of the Directors to complete and do all such acts or things (including executing all such documents, instruments and agreements as may be required) as the Company, such Director or, as the case may be, the Board may consider necessary, desirable or expedient or in the interest of the Company to give effect to the terms of the matters contemplated under the Lease Agreements and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith (including the termination of the Lease Agreements in accordance with the terms and conditions of the Lease Agreements).”

2. “The Proposal on the Appointment of Mr. Shang Duoxu (尚多旭) as a director of the Company* (《關於增補尚多旭先生為董事的議案》) be and is hereby approved”.

NOTICE OF EGM

3. “The Proposal on the Appointment of Mr. Xing Zenghai (邢增海) as a shareholders’ representative supervisor of the Company* (《關於增補邢增海先生為公司股東代表監事的議案》) be and is hereby approved”.
4. “The Proposal on the Appointment of Mr. Yang Qing (楊青) as a shareholders’ representative supervisor of the Company* (《關於增補楊青先生為公司股東代表監事的議案》) be and is hereby approved”.

By order of the Board
Northeast Electric Development Co., Ltd.
Su Weiguo
Director

Haikou, Hainan Province, the PRC
2 August 2021

NOTICE OF EGM

Notes:

1. Any holder of A Shares who has registered on the register of the Company at China Securities Depository and Clearing Company Limited Shenzhen Branch by the close of business on 17 August 2021 is entitled to attend the EGM.
2. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company (in case of any holders of A Shares) or the Company's H Share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong (in case of any holders of H Shares) as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.
3. In order to confirm the list of holders of H Shares of the Company who are entitled to attend the EGM, the register of members of the Company (H Shares) will be closed from Wednesday, 18 August 2021 to Monday, 23 August 2021 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares whose names appear on the register of members of the Company (H Shares) by 4:30 p.m. on 17 August 2021 are entitled to attend and voted at the EGM.
4. Holders of H Shares of the Company who intend to attend the EGM shall deposit the transfer documents and relevant share certificates at the Company's H Share registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on 17 August 2021.
5. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM or adjourned meeting.
6. Pursuant to Rule 13.39(4) of the Listing Rules, the resolution as set out in this notice will be voted on by poll at the EGM. Where the chairman in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted, such resolution will be decided by a show of hands.
7. Shareholders of the Company or their proxies attending the EGM shall bear their own travel and accommodation expenses.

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Telephone : (86) 0898-68876008

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Contact : Ju Meng