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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 your 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 and the accompanying form of proxy to the purchaser(s) or the 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 the 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)

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

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



BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Agreement and the transactions contemplated thereunder is set out on page 14 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder is set out on pages 15 to 33 of this circular.

A notice convening the EGM to be held at the Conference Room, Floor 22, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 29 June 2020 at 11:00 a.m is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company (in case of any holders of A Shares) or 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 and in any event not later than 24 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

3 June 2020

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Interests by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement;
“Agreement”	the equity transfer agreement dated 26 April 2020 entered into between the Purchaser and the Vendor in relation to the Acquisition;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“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;
“Beijing Haihongyuan”	Beijing Haihongyuan Investment Management Co., Ltd. (北京海鴻源投資管理有限公司), a company established in the PRC with limited liability and holder of approximately 9.33% of the shares of the Company as at the Latest Practicable Date, which is wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group;
“Board”	the Board of Directors;
“Business Day(s)”	day(s) on which commercial banks are open for business in the PRC (excluding Saturdays, Sundays and public holidays);
“Company”	Northeast Electric Development Co., Ltd. (東北電氣發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose A Shares and H Shares are listed on the Shenzhen Stock Exchange and main board of the Stock Exchange, respectively;
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Sale Interests, being RMB 48.9 million (equivalent to approximately HK\$53.5 million);
“Director(s)”	the director(s) of the Company;

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“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if though fit, approve the Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HNA Group”	HNA Group Co., Ltd. (海航集團有限公司), a company established in the PRC with limited liability;
“HNA Hotel Group”	HNA Hotel Group Limited* (海航酒店(集團)有限公司), a company established in the PRC with limited liability, which is under the control of HNA Group;
“HNA Tourism Group”	HNA Tourism Group Limited (海航旅遊集團有限公司), a company established in the PRC with limited liability, which is directly owned as to 69.96% by HNA Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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\$;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, established to advise the independent Shareholders in respect of the Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser”	BaoQiao Partners Capital Limited, a corporation licensed to carry Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder;
“Independent Shareholders”	the Shareholders who are not required under the Listing Rules to abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder, being, as at the Latest Practicable Date, Shareholders other than Beijing Haihongyuan and its associates;

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“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Group and its connected persons in accordance with the Listing Rules;
“Latest Practicable Date”	1 June 2020;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan);
“Property”	the building located at No.2, West Jialing Bridge Village, Yuzhong District, Chongqing, the PRC;
“Property Valuation Report”	a valuation report on the Property prepared by an independent valuer;
“Purchaser”	Hainan Garden Lane Flight Hotel Management Co., Ltd., (海南逸唐飛行酒店管理有限公司) (formerly known as Hainan Tangyuan Technology Co., Ltd. (海南唐苑科技有限公司)), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company, which is indirectly owned as to 99% by the Company and 1% by Shanghai Yizhou;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Interests”	30% of the equity interests in the Target Company;
“Shanghai Yizhou”	Shanghai Yizhou Investment Management Co., Ltd. (上海驛舟投資管理有限公司), a company incorporated in the PRC with limited liability, which is wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group;
“Substantial Shareholder(s)”	has the meaning ascribed to it in the Listing Rules;
“Share(s)”	A Share(s) and H Share(s);
“Shareholder(s)”	the holder(s) of the Shares;
“sq.m.”	square metres;

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	HNA Hotel Group (Hong Kong) Company Limited (海航酒店集團(香港)有限公司), a company incorporated in Hong Kong with limited liability, being the subscriber of the Subscription, which is wholly owned by HNA Guoshang Hotel Management Company Limited (海南國商酒店管理有限公司), which in turn is owned as to 76.92% by the Vendor and 23.08% by HNA Tourism Group;
“Subscription”	the subscription by the Subscriber for 155,830,000 H shares of the Company to be issued and allotted by the Company pursuant to the subscription agreement dated 5 April 2017 entered into between the Company and the Subscriber;
“Target Company”	Chongqing HNA Hotel Investment Company Limited* (重慶海航酒店投資有限公司), a company established in the PRC with limited liability;
“Target Company Valuation Report”	a valuation report on the Target Company prepared by an independent valuer;
“Vendor”	HNA Hotel Holding Group Company Limited* (海航酒店控股集團有限公司), a company established in the PRC with limited liability, which is a direct non-wholly owned subsidiary of Beijing Haihongyuan; and
“%”	per cent.

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

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

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)

Directors:

Mr. Zhu Jie
Mr. Bao Zongbao
Mr. Su Weiguo

Independent non-executive Directors:

Mr. Li Ming
Mr. Qian Fengsheng
Mr. Fang Guangrong

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

*Head Office and Principal Place of
Business in Hong Kong:*

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

3 June 2020

To the Shareholders,

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 26 April 2020.

The Board is pleased to announce that on 26 April 2020, the Purchaser, an indirect non-wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor

LETTER FROM THE BOARD

conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Interests for the Consideration of RMB48.9 million (equivalent to approximately HK\$53.5 million), which shall be settled by cash and funded by internal resources of the Group.

The principal terms of the Agreement are summarised below.

THE AGREEMENT

Date : 26 April 2020
Parties : the Vendor; and the Purchaser.
The Sale Interests : 30% of the entire equity interests in the Target Company

Consideration

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

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the relevant parties and is on normal commercial terms with reference to the Target Company Valuation Report prepared by an independent valuer based on asset-based approach to determine the value of the Target Company. The asset-based approach was adopted as the methodology in the valuation of the market value of the entire equity interest of the Target Company as (i) the Property is the principal asset of the Target Company; and (ii) the information about the assets and liabilities of the Target Company is clear and their values may be appraised individually by the appropriate approach.

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

The Directors, having reviewed (i) the basis of adopting the asset-based approach as the valuation methodology summarised above; (ii) the appraised value of the Target Company stated above; and (iii) the valuation assumptions made by the valuer as disclosed under the paragraph headed "IV. Valuation Assumptions" in Appendix I to this circular, are of the view that the basis of adopting the asset-based approach and the valuation assumptions made are fair and reasonable and the appraised value reflected the true value of the entire equity interest of the Target Company.

LETTER FROM THE BOARD

Conditions precedent

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

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

Completion

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

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

INFORMATION OF THE TARGET COMPANY

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

Information of the Property

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

According to the Property Valuation Report, the appraised value of the Property was RMB243,420,938 as of 31 March 2020, valued on the comparison approach. The Directors, having considered that (i) the comparison approach was adopted as it represents the most direct valuation method by which market value is concluded on market-determined market price for similar assets in the market; (ii) the Valuer has made references to the recent comparable sales data within three months prior to 31 March 2020 based on the asking prices of the available real estate properties in the locality which have similar characteristics, including operation condition and location; and (iii) the confirmation from the valuer that it has complied with the selection requirement under the relevant appraisal code and that the comparable transactions selected based on the above selection criteria are exhaustive, are of the view that the basis of adopting the comparison approach and the selection criteria of the comparable transactions are fair and reasonable.

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

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

A counter indemnity agreement was executed between the Vendor and the Target Company on 15 May 2020, pursuant to which in the event of a default in repayment by Grand China Air Co., Ltd. (大新華航空有限公司) of the bank borrowing in the sum of RMB577.59 million, for which the Property was pledged against, the Vendor shall counter indemnify the Target Company in full for all losses and liabilities which may be suffered or incurred by the Target Company under the pledge arising from or attributable to such default.

The Directors, having considered (i) the counter indemnity given to the Target Company by the Vendor under the counter indemnity agreement; (ii) the fact that the Vendor will continue to hold approximately 69.8% of the equity interest in the Target Company after Completion; (iii) the background of the Vendor including its investments in various major cities in PRC; (iv) the audited financial information of the Vendor for the year ended 31 December 2018 and the unaudited financial information of the Vendor for the nine months ended 30 September 2019; (v) the background and the financial position of the Grand China Air based on the public record; (vi) the absence of record of default of Grand China Air Co., Ltd. (大新華航空有限公司); and (vii) the reasons and benefits of the Acquisition stated below, are of the view that, the Vendor is capable to serve the counter indemnity and that despite the pledge, the Acquisition remains in the interests of the Company and the Shareholders as a whole.

Financial information of the Target Company

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

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

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

LETTER FROM THE BOARD

After taking into account the valuation deficit of the Property of approximately RMB2.35 million and the corresponding adjustment of the deferred tax liabilities of RMB58,710 reported as at 31 December 2019 and 31 March 2020, the adjusted fair value of the Target Company would be approximately RMB163.3 million as at 31 December 2019.

INFORMATION OF THE VENDOR

The Vendor is directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group, which in turn is owned as to 70% by Hainan Traffic Administration Holding Company Limited (海南交管控股有限公司), which in turn is owned as to 50% owned by Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司), which in turn is owned as to 65% by Hainan Province Cihang Foundation (海南省慈航公益基金會). The Vendor is principally engaged in investment holding and hotel-related businesses.

INFORMATION OF THE COMPANY AND THE PURCHASER

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

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

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

REASONS AND BENEFITS OF THE ACQUISITION

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

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

As revealed in the annual results announcement of the Company dated 29 April 2020, the Purchaser as a subsidiary of the Company has generated a revenue of approximately RMB61.3 million and a profit of approximately RMB6 million from its hotel-related businesses for the year ended 31 December 2019.

LETTER FROM THE BOARD

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

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

Based on the above, the Directors (excluding the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular), consider that the terms of the Agreement have been entered into on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

The Vendor is, at the Latest Practicable Date, directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group.

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

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

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

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

HNA Group, which indirectly holds approximately 9.33% of the shares of the Company as at the Latest Practicable Date, will indirectly hold 7.92% of the A shares of the Company and 15.14% of the H shares of the Company upon completion of the Subscription. Accordingly, the Company is deemed by itself to be controlled by HNA Group. As the Vendor is also controlled by HNA Group, the Vendor is deemed by the Company to be a connected person of the Company, the Acquisition contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

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

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

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

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

LETTER FROM THE BOARD

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

Set out on pages EGM-1 to EGM-2 of this circular is a notice convening the EGM to be held at the Conference room, Floor 22, HNA Plaza, No. 7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 29 June 2020 at 11:00 a.m. at which relevant resolution(s) will be proposed to the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend (if you are so entitled to) the meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return them as soon as possible to the Company's business office at Floor 22, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC (for holders of A Shares), or the Company's H Share registrar, Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the relevant meeting. Completion and return of the relevant forms of proxy will not preclude you from attending and voting in person at the meetings or at any adjourned meetings should you so wish.

RECORD DATE

For determining the entitlement to attend and vote at the EGM or any adjournment thereof, the record date is fixed on 19 June 2020, Friday. Shareholders whose names appear on the register of members of the Company at the close of business on the record date will be entitled to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be deposited with the Company's H Share registrar, Boardroom Share Registrars (HK) Limited, 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on 19 June 2020.

RECOMMENDATION

Taking into account the reasons as set out in the paragraph headed "Reasons for and benefits of the Acquisition" above, the Directors (excluding the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular) are of the view that the Agreement and the transactions contemplated thereunder are on normal commercial basis, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Therefore, they recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Independent Board Committee, having considered the advice of the Independent Financial Adviser, is of the view that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Agreement and the transaction contemplated thereunder.

Your attention is drawn to (i) the letter from the Independent Board Committee; and (ii) the letter from the Independent Financial Adviser contained in this circular.

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

ADDITIONAL INFORMATION

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

By order of the Board
Northeast Electric Development Company Limited
Zhu Jie
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder.



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)

3 June 2020

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular (the “**Circular**”) dated 3 June 2020 issued by the Company to its shareholders of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder. BaoQiao Partners Capital Limited has been appointed by the Company as the independent financial adviser to advise us in this regard. Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 15 to 33 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we we concur with its views and consider that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution(s) to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Li Ming

Mr. Qian Fengsheng

Mr. Fang Guangrong

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from BaoQiao Partners Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 2803-2805, 28/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

3 June 2020

*To the Independent Board Committee and the Independent Shareholders of
Northeast Electric Development Co., Ltd.*

Dear Sir or Madam,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 3 June 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Vendor is, at the Latest Practicable Date, directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group. During the extraordinary general meeting of the Shareholders and separate class meetings of holders of H shares of the Company and holders of A shares of the Company held on 5 June 2017, resolutions have been passed to approve, among others, the issue and allotment of 155,830,000 new H shares of the Company and the Subscription of the same by the Subscriber. The Subscriber is wholly owned by HNA Guoshang Hotel Management Company Limited (海南國商酒店管理有限公司), which in turn is owned as to 76.92% by the Vendor and 23.08% by HNA Tourism Group. Accordingly, both the Vendor and the Subscriber are associates of and deemed to be controlled by HNA Group. On 30 December 2019, the Company signed a side letter with the Subscriber agreeing to extend the long stop date of the Subscription to 30 June 2020. Upon completion of the Subscription, HNA Group will indirectly hold 7.92% of the A shares of the Company and 15.14% of the H shares of the Company. For further details of the Subscription, please refer to the announcement and circular of the Company dated 5 April 2017 and 21 April 2017, respectively.

As disclosed in the Letter from the Board, HNA Group, which indirectly holds approximately 9.33% of the shares of the Company as at the Latest Practicable Date, will indirectly hold 7.92% of the A shares of the Company and 15.14% of the H shares of the Company upon completion of the Subscription. Accordingly, the Company is deemed by itself to be controlled by HNA Group. As the Vendor is also controlled by HNA Group, the Vendor is deemed by the Company to be a connected person of the Company, the Acquisition contemplated under the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

English translations of Chinese names marked with “*” in this letter are for illustration purposes only.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company and its respective subsidiaries and associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser in relation to the Agreement and the transactions contemplated thereunder, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rules 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Announcement and the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as up to the date of the Circular. We have also assumed that all statements of belief, opinions, expectations, representations and intentions made by the Directors and the Management in the Circular and/or discussed with/provided to us were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management, which have been provided to us.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Group and transactions contemplated thereunder in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the Agreement and transactions contemplated thereunder. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the Agreement and transactions contemplated thereunder, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Agreement and transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information of the Group

1.1 Background of the Group

The Group is principally engaged in the R&D, design, production and sales businesses of products related to power transmission and transformation equipment (the “**Power Equipment Business**”) and hotel-related businesses (the “**Hotel-related Business**”).

1.2 Financial information of the Group

Set out below is the audited financial information of the Group for the three years ended 31 December 2017, 2018 and 2019 (“**FY2017**”, “**FY2018**” and “**FY2019**” respectively) prepared in accordance with the Accounting Standards for Business Enterprises of the PRC (the “**PRC GAAP**”) as extracted from the Company’s annual reports for FY2018 (the “**2018 Annual Report**”) and FY2019 (the “**2019 Annual Report**”):

	FY2019	FY2018	FY2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(audited)	(audited)	(audited)
Revenue			
– Power Equipment Business	41,026	32,311	32,985
– Hotel-related business	61,315	-	-
	102,341	32,311	32,985
(Loss)/profit for the year	(40,133)	14,098	(397,156)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
	(audited)	(audited)
Total assets	477,041	505,113
Total liabilities	528,148	482,997
Net assets/(liabilities)	(51,107)	22,116

Financial Performance of the Group

FY2019 vs FY2018

Revenue of the Group was approximately RMB102.3 million for FY2019, representing an increase of approximately 216.5% as compared to approximately RMB32.3 million for FY2018. As disclosed in the 2019 Annual Report, the increase in revenue was mainly attributable to the hotel catering and accommodation services income of approximately RMB61.3 million generated from the Group's new Hotel-related Business in FY2019, which, the Group, through its principal operating subsidiary, Hainan Garden Lane Flight Hotel Management Co., Ltd, provides management services with hotels under its related party, HNA Group since February 2019. The Power Equipment Business also reported an increase in revenue of approximately RMB8.7 million or 27.0% during FY2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group reported loss of approximately RMB40.1 million for FY2019 as compared to the profit of approximately RMB14.1 million for FY2018. If excluding the material non-operating and non-recurring items reported by the Group for both FY2018 and FY 2019, which included (i) a gain on disposal of a subsidiary of approximately RMB34.7 million (“**Disposal Gain**”) and the relocation compensation income of RMB15.8 million (“**Compensation Income**”) received by the Group in FY2018; and (ii) the increase in share of loss of an associate of approximately RMB22.5 million in FY2019, the Group would have recorded loss of approximately RMB36.4 million and RMB17.6 million for FY2018 and FY2019 respectively. The improvement in the operating loss position of the Group for FY2019 was mainly due to higher operating margin of the Group’s new Hotel-related Business, which reported gross margin of approximately 65.8%, while gross margin of the Power Equipment Business was approximately 14.9% as disclosed in in the 2019 Annual Report.

FY2018 vs FY2017

The Power Equipment Business was the only business of the Group for both FY2017 and FY2018, which reported revenue of approximately RMB33.0 million and RMB32.3 million for FY2017 and FY2018 respectively.

The Group turned from a loss of approximately RMB397.2 million for FY2017 to a profit of approximately RMB14.1 million for FY2018, mainly attributable to (i) the accrual for the estimated liabilities of approximately RMB310.4 million in FY2017 regarding the ongoing litigation (the “**Litigation**”) for the payment of the staff resettlement expenses by the Group demanded by Tiexi District Branch (Shenyang City) of State-owned Assets Supervision and Administration Bureau; (ii) the decrease in the assets impairment loss, mainly represented loss on available-for-sale investments and bad debts, from approximately RMB41.8 million for FY2017 to RMB64,818 for FY2018; and (iii) the recognition of the abovementioned Disposal Gain and Compensation Income in an aggregate amount of approximately RMB50.5 million in 2018.

Financial Position of the Group

There was deterioration in the financial position of the Group since 2017 due to the recognition of the accrued liabilities of RMB310.4 million regarding the Litigation in FY2017. The Litigation is ongoing and based on our discussion with the Company, the Company is not in a position to predict the timing and the results thereof and such liabilities have been reported as current liabilities of the Group since FY2017 and up to the Latest Practicable Date. As such, the Group reported net liabilities of approximately RMB194.6 million as at 31 December 2017 as compared to net assets of approximately RMB207.9 million as at 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group turned from net liabilities of approximately RMB194.6 million as at 31 December 2017 to net assets of approximately RMB22.1 million as at 31 December 2018, due mainly to the improvement in the assets position of the Group by the donation of 10.50% equity of HNA Tianjin Center Development Co., Ltd. (with appraised value at RMB201.48 million) by Shanghai Yizhou in 2018.

As at 31 December 2019, the Group reported net liabilities of approximately RMB51.1 million as compared to the net assets of approximately RMB22.1 million as at 31 December 2018, mainly attributable to the reported loss of RMB40.1 million of the Group for FY2019 and the assets impairment on equity investment classified as fair value through other comprehensive income (FVOCI) of approximately RMB32.9 million in FY2019.

As disclosed in the 2019 Annual Report and the Company's first quarterly report of 2020 published on 29 April 2020, the Group had cash at financial institutions, banks and on hand of RMB135.3 million and RMB133.3 million as at 31 December 2019 and 31 March 2020 respectively.

2. Information of the Vendor

The Vendor is directly owned as to approximately 86.73% by Beijing Haihongyuan, which is in turn is wholly-owned by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group. The Vendor is a company established in year 2003 with registered capital of RMB10,377,309,900. It is principally engaged in hotel development and management, air transportation, tourism, and tourism finance and IT business with investments covering key tourist and business cities in the PRC, including Beijing, Guangzhou, Chongqing, Hangzhou, Qingdao, etc.

Based on the audited financial statements of the Vendor for the year ended 31 December 2018 and the unaudited financial information of the Vendor for the nine months ended 30 September 2019 (collectively, the “**Vendor's Financial Information**”) provided by the Vendor through the Management, the unaudited and audited consolidated net assets of the Vendor as at 30 September 2019 and 31 December 2018 respectively were approximately RMB11.7 billion.

HNA Tourism Group is the core business group of the aviation and tourism business under the HNA Group, which in turn is owned as to 70% by Hainan Traffic Administration Holding Company Limited (海南交管控股有限公司), which in turn is owned as to 50% owned by Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司), which in turn is owned as to 65% by Hainan Province Cihang Foundation (海南省慈航公益基金會).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Information of the Purchaser

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

4. Information of the Target Company and Property

4.1 Information of the Target Company

The Target Company is a company established in the PRC on 16 July 2007 with limited liability. The Target Company is principally engaged in investment in hotel-related business and property leasing. As at the Latest Practicable Date, the Target Company is owned as to 99.8% by the Vendor and as to 0.2% by HNA Hotel Group. Upon Completion, the Target Company will be owned as to 69.8%, 30.0% and 0.2% by the Vendor, the Purchaser, and HNA Hotel Group, respectively.

4.2 Information of the Property

The Property

The principal asset of the Target Company is the Property, which is a hotel located at No. 2 Jialing Bridge West Village, Yuzhong District, Chongqing City in Chongqing, the PRC. The Property has a total gross floor area of 18,143.4 sq.m. and a total area of shared land tenure of 1,243.85 sq.m. with 2 floors underground and 32 floors above ground. The Property is equipped with 334 hotel rooms and other hotel facilities including business centres and restaurants.

Currently, the Property is leased to two branches (Chongqing Qiaoxi Village Branch and Chongqing Qiaoxi Village Second Branch) under Huazhu Hotel Management Co., Ltd. (“**Huazhu Hotel**”), an Independent Third Party, for hotel operation under the names of All Seasons Hotel and Hanting Hotel, with a lease term from 24 May 2013 to 23 May 2028. The rent for the first year is RMB8.2 million, and increases by 5% every 3 years. The Property is favorably located on the bank of the famous Jialing River and is adjacent to the Chongqing Municipal Government Building, light rail stations and many tourist attractions in Chongqing, 1.36 km away from Chongqing Railway Station, 1.4 km away from Chongqing Bus Station, 4.24 km away from Chaotianmen Wharf, 20 km away from Jiangbei International Airport, making it an ideal place for leisure, commercial activities and business gathering.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Pledge

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

We have obtained from the Management the loan documents (the “**Loan Documents**”) in relation to the Bank Loan and the Pledge and discussed with the Management the relevant loan performance and the background of Grand China Air as well as the risk exposure of the Target Company under the Pledge.

We understand from the Management that the Bank Loan is under normal performance and there has been no default on the payment obligations by Grand China Air under the Bank Loan in the past. Based on the legal opinion (the “**PRC Legal Opinion**”) issued by the Group’s PRC legal advisers, if the Target Company has to assume the responsibility of bank borrowings under the Pledge, it has the right to recover the losses and damages from Grand China Air in accordance with the terms of the Loan Documents.

Based on the National Enterprise Credit Information Publicity Report (企業信用信息公示報告) of Grand China Air (the “**Enterprise Report**”) from the website of National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation, Grand China Air has a registered capital of RMB6,008,323,967 and its principal shareholders, who aggregate own over 50% of the equity interests of Grand China Air are (i)海南發展控股有限公司 (“**Hainan Development**”) (24.97%), a company wholly-owned by State-owned Assets Supervision and Administration Commission of Hainan Province (海南省政府國有資產監督管理委員會); (ii) HNA Group (23.11%); (iii) Haikou Meilan International Airport Company Limited (海口美蘭國際機場有限責任公司) (“**Haikou Meilan**”) (8.3%), who is the controlling shareholder of Hainan Meilan International Airport Company Limited, a company listed on the Stock Exchange with stock code: 357). Hainan Development and HNA Group in aggregate control over 50% of the equity interests in Haikou Meilan.

Grand China Air is principally engaged in air transportation and its related business, investment management of airport and hotel management and it is the controlling shareholder of Hainan Airlines Co., Ltd. (“**Hainan Airlines**”, a company listed on the Shanghai Stock Exchange, stock code: 600221) holding 3,883,184,744 shares of Hainan Airlines (representing approximately 23.11% of the issued share capital of Hainan Airlines as at the Latest Practicable Date). As at the Latest Practicable Date, the market capitalisation of the shares of Hainan Airlines is approximately RMB28.3 billion. Based on the announcement (“**HNA Announcement**”) published by Hainan Airlines on 4 January 2020 regarding the financial information of Grand China Air on the website of Shanghai Stock Exchange (www.sse.com.cn), the unaudited total assets and net assets of Grand China Air as at 30 June 2019 was approximately RMB224.3 billion and RMB70.9 billion respectively, and the revenue and net profit of Grand China Air for the six months ended 30 June 2019 were approximately RMB35.2 billion and RMB268 million respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, a counter indemnity agreement was executed between the Vendor and the Target Company on 15 May 2020, pursuant to which in the event of a default in repayment by Grand China Air of the Bank Loan, for which the Property was pledged against, the Vendor shall counter indemnify the Target Company in full for all losses and liabilities which may be suffered or incurred by the Target Company under the pledge arising from or attributable to such default (the “**Counter Indemnity**”).

4.3 *Financial Information of the Target Company*

Set out below is the summary of the financial information of the Target Company as extracted from the audited financial statements of the Target Company for the year ended 31 December 2019 (the “**2019 Target Audited Accounts**”) prepared in accordance with the PRC GAAP:

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

The net assets of the Target Company as at 31 December 2019 and 31 December 2018 were approximately RMB165,099,000 and RMB159,792,000 respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the book value and the fair value of the Target Company as of 31 December 2019 extracted from the Target Company Valuation Report as set out in Appendix I in the Circular.

	Book Value	Fair Value	Adjustments	Appreciation/ (Depreciation)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	Percentage
	<i>(Audited)</i>			<i>(%)</i>
Current Assets	59,207.1	59,207.1	–	0
Non-current Assets				
-Investment Properties	245,769.3	243,420.9	(2,348.4)	-0.96
-Fixed Assets	6.7	7.3	0.6	8.54
	245,776.0	243,428.2	(2,347.8)	-0.96
Total Assets	304,983.1	302,635.3	(2,347.8)	-0.77
Current Liabilities	103,963.6	103,963.6	–	0
Non-current Liabilities	35,920.2	35,333.1	(587.1)	-1.63
Total Liabilities	139,883.7	139,296.7	(587.1)	-0.42
Net Assets (Equity)	165,099.4	163,338.6	(1,760.7)	-1.07

The Target Company's assets mainly comprise of the Property and the fair value of the Property as at both 31 December 2019 and 31 March 2020 was approximately RMB243.42 million based on the Property Valuation Report as set out in Appendix II to the circular.

5. Reasons for and Benefits of the Acquisition

The Group is principally engaged in the Power Equipment Business and the Hotel-related Business.

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

As disclosed in the 2019 Annual Report, the Hotel-related Business operated by the Purchaser has generated a revenue of approximately RMB61.3 million (representing approximately 60% of the revenue of the Group for FY2019) and a segment profit of approximately RMB6 million for FY2019.

The Directors are of the view that the Acquisition is part of, and in line with, the Group's plan to enhance its investment and development in the hotel-related business segment. In addition, the Acquisition, which involves a hotel in a premium location in Chongqing, the PRC, being the Property, will enable the Group to (i) leverage on the resources, management experience and expertise of the Target Company and its related parties in the hotel industry (further information of the Target Company and its related parties has been disclosed in the section headed "Information of the Vendor" and "Information of the Target Company" in this letter) and; (ii) enrich its business scope and expand its new hotel-related business segment; (iii) strengthen the business co-operation with the Vendor and its related parties in hotel-related businesses; and (iv) further the transformation of the Group from solely engaging in the traditional manufacturing sector to one that also provides modern services in the tertiary sector.

The tourism industry showed continuous positive growth during the past five years in both the PRC and Chongqing, indicating a favorable market environment for the Hotel-related Business of the Group and the hotel business of the Target Company. As noted from the statistics from the website of Ministry of Culture and Tourism of the PRC (mct.gov.cn), the total number of tourists nationwide increased from approximately 4.1 billion in 2015 to approximately 6.1 billion in 2019 at a compound annual growth rate ("CAGR") of approximately 10.4% while the revenue from the tourism industry nationwide increased from approximately RMB4.1 trillion in 2015 to approximately RMB6.6 trillion in 2019 at a CAGR of approximately 12.6%. The tourism industry in Chongqing experienced a faster growth than the nationwide industry. Statistics from website of Chongqing Municipal People's Government (cq.gov.cn) indicates that the total number of tourists visiting Chongqing increased from approximately 391.7 million in 2015 to approximately 657.1 million in 2019 at a CAGR of approximately 13.8% and the total revenue from the tourism industry in Chongqing increased from approximately RMB225.1 billion in 2015 to approximately RMB573.9 billion in 2019 at a CAGR of approximately 13.8%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we are of the view that (i) there is a strong track record of the tourism industry in Chongqing and the PRC; (ii) the Acquisition is in line with the business strategy of the Group; (iii) the Acquisition can strengthen the Group's cooperation with the Vendor and its related parties (background information of the Vendor and its shareholders has been disclosed above under section headed "Information of the Vendor" in this letter), who are stakeholders with established businesses in the hotel related business, which allows the Group to leverage on their industry knowledge and business network and in turn may bring in additional resources and investment opportunities for the Group's long term development.

As disclosed in the section headed "Information of the Property" in this letter, the principal asset of the Target Company is the Property, which was pledged as part of the collaterals to secure the Bank Loan by Grand China Air and a Counter Indemnity was given to the Target Company by the Vendor to indemnify the Target Company in full for all losses and liabilities which may be suffered or incurred by the Target Company under the Pledge.

We note that the Directors, having considered (i) the counter indemnity given to the Target Company by the Vendor under the counter indemnity agreement; (ii) the fact that the Vendor will continue to hold approximately 69.8% of the equity interest in the Target Company after Completion; (iii) the background of the Vendor including its investments in various major cities in PRC; (iv) the audited financial information of the Vendor for the year ended 31 December 2018 and the unaudited financial information of the Vendor for the nine months ended 30 September 2019; (v) the background and the financial position of the Grand China Air based on the public record; (vi) the absence of record of default of Grand China Air; and (vii) the reasons and benefits of the Acquisition stated in the Letter from the Board, are of the view that, the Vendor is capable to serve the counter indemnity and that despite the pledge, the Acquisition remains in the interests of the Company and the Shareholders as a whole.

Based on our discussion with the Management and having considered (i) the Vendor will continue to be the controlling shareholder of the Target Company holding approximately 69.8% equity interest in the Target Company after Completion; (ii) the Counter Indemnity provides security for the Company's investments in the Target Company; (iii) the background and the financial position of the Grand China Air based on the public record as disclosed in the section headed "Information of the Property" in this letter; (iv) the absence of record of default of the Bank Loan by Grand China Air as represented by the Management; (v) the background of the Vendor and its latest financial position as disclosed in the section headed "Information of the Vendor" in this letter); and (vi) the reasons and benefits of the Acquisition stated above, we concur with the Directors' view that, the Vendor is capable to serve the counter indemnity and that despite the pledge, the Acquisition remains in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. The Agreement

The principal terms of the Agreement are summarised below. Please refer to the “Letter from the Board” set out in the Circular for further details.

Date

26 April 2020

Parties

- (a) The Vendor; and
- (b) The Purchaser.

The Sales Interests

30% of the entire equity interests in the Target Company

Conditions precedent:

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

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

Consideration

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis of the Consideration

As disclosed in the Letter from the Board, the Consideration was determined after arm's length negotiations between the relevant parties and is on normal commercial terms with reference to the Target Company Valuation Report prepared by the Valuer based on asset-based approach to determine the value of the Target Company.

According to the Target Company Valuation Report, the appraised value of the Target Company (taking into account the appraised value of the Property of approximately RMB243,420,900 as at both 31 December 2019 and 31 March 2020 based on the Property Valuation Report prepared by the Valuer) was RMB 163,338,600 (equivalent to approximately HK\$182,340,000) as of 31 December 2019. The appraised value of 30% of the entire equity interests of the Target Company was accordingly approximately RMB49.0 million (the “**Appraised Value**”). The Consideration of RMB49.5 million approximates the Appraised Value.

Valuation of the Target Company and the Property

In assessing the fairness and reasonableness of the Consideration, we have reviewed the Target Company Valuation Report and the Property Valuation Report (collectively, the “**Valuation Reports**”) as set out in Appendix I and Appendix II to the Circular, respectively. We have discussed with the Valuer, namely Zhong Wei Zheng Xin (Beijing) Asset Valuation Co., Ltd. (中威正信(北京)資產評估有限公司) in respect of the valuation (the “**Valuation**”) of fair values of the entire equity interests of Target Company and the Property.

(i) Qualification and experience of the Valuer

In compliance with the requirements of Rule 13.80 of the Listing Rules, we have reviewed and enquired the qualification and experience of the Valuer. Based on our review on the qualification and experience of the Valuer, we noted that the Valuer is (i) a qualified valuer for conducting valuation of securities and futures jointly approved by Ministry of Finance of the PRC and China Securities Regulatory Commission; (ii) a qualified asset valuer approved by Beijing Municipal Finance Bureau and a member of China Appraisal Society (中國資產評估協會) (“**CAS**”); and (iii) has more than 10 years' experience in undertaking business and property appraisals in the PRC. The Valuer confirmed that it is a third party independent of the Company and Vendor. The two responsible staff of the Valuer signing the Valuation Reports are qualified asset valuers registered with CAS and the Certified Real Estate Appraisers approved and authorised by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) (“**MoHURD**”) and members of the China Institute of Real Estate Appraisers and Agents (CIREA). One of the responsible staff has over 10 years' experiences in assets (including properties) valuation in the PRC and the other has more than 2 years of experience in valuing properties and over 10 years' experience in assets valuation (other than properties) in the PRC.

We have also reviewed the terms of the engagement of the Valuer by the Group and we noted that the scope of work is appropriate to the opinion given and we are not aware of any limitations on the scope of work which might have an adverse impact on the degree of assurance given by the valuation of both the Target Company and the Property. Thus, we consider that the Valuer is qualified and possesses sufficient relevant experience in performing the valuation of the Target Company and the Property.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Valuation basis, methodology and assumptions*

We have reviewed the Valuation Reports and discussed with the Valuer regarding the methodology of and the principal basis and general assumptions adopted for the valuations of the Target Company and Property.

As confirmed by the Valuer, the valuations of both the Target Company and the Property are conducted in accordance with Standards for the Appraisal of Assets* (資產評估執業準則) issued by CAS, the Code for Real Estate Appraisal of the National Standard of the PRC (中華人民共和國國家標準房地產估價規範) (GB/T 50291-2015) (the “**Appraisal Code**”) published by MoHURD and the Regulation for Valuation on Urban Land (中華人民共和國國家標準城鎮土地估價規程) (GB/T18508-2014) of the National Standard of the PRC published by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) (collectively, the “**Standards**”).

Target Company Valuation Report

Based on our discussion with the Valuer and as disclosed in the Target Company Valuation Report, we noted that the Valuer has adopted the asset-based approach as the principal methodology in arriving at the market value of the entire equity interest of the Target Company as (i) the Property is the principal asset of the Target Company; and (ii) the information about all assets and liabilities of the Target Company is clear, and the value of each of assets and liabilities may be appraised separately using asset-based approach.

As disclosed in the Target Company Valuation Report, a valuation deficit of the Property of approximately RMB2.35 million and an corresponding adjustment of the deferred tax liabilities arising from the change in fair value of the Property of approximately RMB58,710 were reported as at 31 December 2019 and 31 March 2020, resulting in an decrease of net assets value of the Target Company from the book value of approximately RMB165.10 million to the fair value of approximately RMB163.34 million at 31 December 2019. The reconciliation of the fair value of the assets and liabilities of the Target Company as at 31 December 2019 is disclosed in the section headed the “Financial Information of the Target Company” in this letter.

Property Valuation Report

According to the Property Valuation Report, the valuation of the Property is carried out using the comparison approach by making reference to comparable sales evidence available in the market (the “**Valuation Approach**”), on the basis that the comparison approach represents the most direct valuation method by which market value is concluded on market-determined market price for similar assets in the market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In valuing the Property, the Valuer has made reference to the recent comparable sales data (the “**Comparable(s)**”) (i.e. within three months prior to 31 March 2020) based on the asking prices of the available real estate properties in the locality which have similar characteristics, such as the operation condition and location, as there is no public transaction information.

We noted that the selected Comparables are commercial properties for hotel operation and located in the business and tourism areas of the Yuzhong District of Chongqing (where the district of the Property is located) for the calculation of the fair value of the Property. In addition, the Valuer confirmed that (i) it has complied with the selection requirement under the Appraisal Code which the transaction date of the Comparables shall be close to the valuation date (i.e. best within one year prior to the valuation date and in any event not more than two years prior to the valuation date as stated in the Appraisal Code); and (ii) the Comparables selected are exhaustive based on the above selection criteria.

In light of the above, we are of the view that the selection criteria of the Comparables is fair and reasonable.

We noted that adjustment (the “**Land Adjustment**”) regarding the potential land premium payable under the Property has been applied on the land portion of the Property as the remaining term of the land use rights of the Property (i.e. until 2032) is shorter than the building life (i.e. until 2056). The Land Adjustment is calculated based on the latest benchmark land price published in 2016 by the Bureau of Land and House Administration of Chongqing* (重慶市國土房管局) and adjusted by, among others, the current published land price index in Chongqing published by China Land Value Information Service Platform* (中國地價信息服務平台), the remaining term of the land use rights, the floor area ratio, the development degree of the land and other area and physical factors, etc., in accordance with the requirements under the Standards.

Given that (i) the Comparables represent the recent market prices of the real estate properties that have similar characteristics, in terms of physical characteristics and location; and (ii) necessary adjustment has been made to address the different lease terms of the land and building, we are of the view that the Comparables are a fair and representative sample.

Having considered (i) the valuation methodology adopted by the Valuer is a common practice for determining the fair values of the Target Company and the Property and the underlying basis and assumptions are fair and reasonable; (ii) the Consideration approximates the Appraised Value; and (iii) the reasons for the Acquisition and the expected benefits to the Company as discussed above, we are of the view that the Consideration is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. Financial Effects of the Acquisition

Set out below are the financial effects of the Acquisition on the Group:

7.1 Accounting treatment upon Completion

Upon Completion, the Target Company will be owned as to 30.0% by the Purchaser and accounted for as an associate of the Group. The financial results of the Target Company will not be consolidated into the financial statements of the Group.

7.2 Bank balances and cash

As noted from the 2019 Annual Report and the Company's first quarterly report of 2020 published on 29 April 2020, the Group had cash and cash equivalents of approximately RMB135.3 million and RMB133.3 million as at 31 December 2019 and 31 March 2020 respectively, which is sufficient for the cash payment for the Consideration.

7.3 Net asset value

As the Consideration approximates the fair value of the net assets of the Target Company, it is expected that the Acquisition would not have material impact on the net assets value of the Group upon Completion.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the above principal factors and reasons, we are of the view that even though the entering into of the Agreement is not in the ordinary and usual course of the business of the Group, the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution(s) at the EGM to approve the Agreement and transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
BaoQiao Partners Capital Limited
Monica Lin **Irene Poon**
Managing Director *Executive Director*

Ms. Monica Lin is a responsible person registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in corporate finance industry.

Ms. Irene Poon is a responsible person registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in the accounting and corporate financial services industry.

The following is the text of the Target Company Valuation Report, prepared for the purpose of incorporation in this circular received from Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd., in connection with its valuation as at 31 December 2019 of the entire equity interest of the Target Company.

**Asset Valuation Report on Market Value
of Equities to be Purchased by Hainan Garden Lane Flight
Hotel Management Co., Ltd Involving the Entire Equities of
Chongqing HNA Hotel Investment Co., Ltd.**

**ZWZXPZZ (2020) No. 5005-1
Volume 1 of 1**

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

3 June 2020

Hainan Garden Lane Flight Hotel Management Co., Ltd.,

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd. (中威正信(北京)資產評估有限公司) was engaged by Hainan Garden Lane Flight Hotel Management Co., Ltd. (海南逸唐飛行酒店管理有限公司) to assess the market value of the entire equities of Chongqing HNA Hotel Investment Co., Ltd. (重慶海航酒店投資有限公司) as at 31 December 2019, in accordance with relevant laws and regulations and in compliance with all necessary procedures by adopting the asset-based method. The main contents of the valuation report are hereby described as follows:

- I. Name of client: Hainan Garden Lane Flight Hotel Management Co., Ltd.
- II. The valued entity: Chongqing HNA Hotel Investment Co., Ltd.
- III. Economic activity: Hainan Garden Lane Flight Hotel Management Co., Ltd. planned to purchase the equities in Chongqing HNA Hotel Investment Co., Ltd.
- IV. Purpose of valuation: The valuation is for the purpose of determining the market value of the entire equities in Chongqing HNA Hotel Investment Co., Ltd. to provide the reference basis for the proposed purchase of equities in Chongqing HNA Hotel Investment Co., Ltd. by Hainan Garden Lane Flight Hotel Management Co., Ltd.
- V. Restrictions on use of this valuation report
 1. This valuation report shall only be used for the purpose of valuation and use set forth herein.

Where the client or other asset valuation report users fail to use the Asset Valuation Report within the scope as set forth herein in accordance with the laws and administrative regulations, the asset valuation firm and its valuation specialists shall take no responsibility.
 2. This valuation report shall only be used by the asset valuation report users set forth herein.

Any other agencies and individuals, other than the client, other asset valuation report users as agreed in the commission contract for asset valuation, and the asset valuation report users as stipulated by laws and administrative regulations, shall not be the users of the Asset Valuation Report.
 3. Asset valuation report users shall have a correct understanding of the valuation conclusion, which is not equivalent to the realisable price of the valuation target and shall not be deemed as a guarantee for the realisable price of the valuation target.

4. The valuation results reflect the prevailing fair market value of the valuation target determined according to the principles in an open market, under the valuation purpose and assumptions, without taking into account the impact of potential increase/decrease of the price by special counterparties on the valuation price, or that of any changes in national macroeconomic policies or the occurrence of natural forces or other force majeure on the asset price. In case of changes in any of the aforesaid conditions, the assumptions adopted in the valuation, the principles for changes of the owners of property rights and otherwise, the valuation results generally will be invalid.
5. None of this valuation report or any part hereof may be copied, quoted or published in a public medium without the approval of this valuation firm of the contents, unless otherwise provided in any applicable law, regulation or as agreed between the parties;
6. Validity of valuation conclusion

Pursuant to relevant national regulations, the validity of the valuation conclusion on this report shall be one year, commencing on the valuation date, i.e. 31 December 2019. The valuation report shall only be relied upon where the valuation date is less than one year from the date of the realisation of the business activity.

7. All or any part of this report is subject to the interpretation of Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

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I. Background and Major Assets of Chongqing HNA Hotel Investment Co., Ltd.

Chongqing HNA Hotel Investment Co., Ltd. was incorporated on 16 July 2007. The construction of the hotel was completed in 1996. Located at No. 2 Jialing Bridge West Village, Yuzhong District, Chongqing City, the hotel, formerly known as Hongdu Hotel (洪都大酒店), was renamed HNA Hotel Chongqing (重慶海航酒店) at the end of September 2007. Chongqing HNA Hotel Investment Co., Ltd. is primarily engaged in the lease of investment properties.

Chongqing HNA Hotel Investment Co., Ltd. had no trademark, technology or intangible assets according to the audited accounting statements as at the valuation date.

II. Reference Data

1. Financial data as at 31 December 2019 provided by Chongqing HNA Hotel Investment Co., Ltd.;
2. Audit report as at 31 December 2019 provided by Zhongxingcai Guanhua Certified Public Accountants LLP;
3. Other information provided by Chongqing HNA Hotel Investment Co., Ltd.;
4. Interim Regulations Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas.

III. Valuation Method

(I) Introduction to the valuation method

In general, the enterprise value may be appraised using market approach, cost approach or income approach. In the specific valuation process, one or more basic valuation approaches are selected as appropriate by analysing the suitability of each of the three basic approaches for asset valuation, including income method, market approach and cost approach in light of the valuation target, type of value, information collected and other relevant conditions.

The asset-based approach for the valuation of an enterprise's value refers to the valuation method whereby the value of the valuation target is determined by reasonable valuation of on and off-balance sheet assets and liabilities on the basis of the balance sheet of the valued company on the valuation date.

The income approach for the valuation of an enterprise's value refers to the valuation method whereby the value of the valuation target is determined by capitalising or discounting the expected income, which means that the value of the valuation target is determined by estimating the expected income of the valued enterprise in the effective years and periods in the future, converting the expected net income in the future into the present values adopting an appropriate discount rate and adding up the present values.

The market approach for the valuation of an enterprise's value refers to the valuation method whereby the value of the valuation target is determined by comparing the valuation target with comparable listed companies or comparable transaction cases.

(II) Selection of valuation method

After learning and analysing Chongqing HNA Hotel Investment Co., Ltd., the market and the relevant industry, we believed that although the domestic equity transfer market is increasingly open, it is difficult to select a comparable reference object and to determine a reference enterprise or transaction case with reasonable basis for comparison, since there is hardly a company that is similar to Chongqing HNA Hotel Investment Co., Ltd. in terms of the size and features of asset, operational and financial risks, growth, etc. As a result, the entire equity interest in Chongqing HNA Hotel Investment Co., Ltd. is not qualified for the valuation using market approach.

The conditions for valuation using the asset-based approach are met, as the information about all assets and liabilities of the valued enterprise is clear, and the value of each of assets and liabilities may be appraised separately using appropriate approach. Therefore, the entire equity interest was appraised using asset-based approach.

(III) Idea for the valuation of assets and liabilities

※ Asset-based approach

The asset-based approach is a method to determine the value of the valuation target on the basis of reasonably evaluating the assets and liabilities of the evaluated entity. In the valuation of Chongqing HNA Hotel Investment Company Limited, on the premise of applying the predetermined valuation assumptions, specific valuation methods suitable for the assets and liabilities of Chongqing HNA Hotel Investment Company Limited were adopted to evaluate the assets and liabilities of the company respectively, and the appraised value of the net assets was determined by subtracting the total liabilities from the total assets after the valuation.

Specific valuation process and valuation method for each individual asset are described as follows:

1. Valuation of current assets

(1) Valuation of cash and cash equivalents

For bank deposits, after checking the bank deposit accounts and account book, we examined the bank statements and bank reconciliation statements provided by the enterprise, analyzed and verified the causes and economic contents of the bank's accounts in transit, and determined the valuation based on the book value after confirming that there were no major factors affecting the net assets.

(2) Valuation of creditor's assets

For accounts receivable, on the basis of checking the account books, account tables and lists in the valuation, we investigated and analyzed the occurrence time, specific contents, causes and the situation of the debtor, and performed external confirmation for large claims and key claims. In addition, the evaluators adopted alternative procedures such as auditing financial books and checking original vouchers and determined the valuation based on the amount that could be recovered of receivables after analysis and verification.

2. Valuation of non-current assets

(1) Investment properties

In the valuation, the comparison method was adopted for the valuation of investment properties, and the method of benchmark land price coefficient correction was used for the valuation of land use rights involved.

The valuation of the Property is carried out using the comparison approach by making reference to comparable sales evidence available in the market (the “**Valuation Approach**”), on the basis that the comparison approach represents the most direct valuation method by which market value is concluded on market-determined market price for similar assets in the market.

In valuing the Property, we have made reference to the recent comparable sales data based on the asking prices of the available real estate properties in the locality which have similar characteristics, such as the operation condition and location as there is no public transaction information. The selected comparables are commercial properties for hotel operation and located in the downtown business of the district (i.e. with convenient traffic access) for the calculation of the fair value of the Property. The adjustment (the “Land Adjustment”) regarding the potential land premium payable under the Property has been applied on the land portion of the Property as the remaining term of the land use rights of the Property (i.e. until 2032) is shorter than the building life (i.e. until 2056). The Land Adjustment is calculated based on the latest benchmark land price published in 2016 by the Bureau of Land and House Administration of Chongqing* (重慶市國土房管局) and adjusted by, among others, the current published land price index in Chongqing published by China Land Value Information Service Platform* (中國地價信息服務平台), the remaining term of the land use rights, the floor area ratio, the development degree of the land and other area and physical factors, etc., in accordance with the requirements under the Standards.

- 1) Principle of the comparison method: a method of selecting a certain number of comparable instances, comparing them with the valuation target, and obtaining the value or price of the valued object after processing the transaction prices of the comparable instances according to the differences between them. The valuation target is commercial property and there are many property cases of the same type in the region, so the comparison method can be used for valuation.

Calculation formula:
$$P = \sum_{i=1}^n X_i a_i b_i c_i \cdot n$$

Where:

P— The property price of the valuation target

N-- The number of the selected comparable instances

Xi-- The price of No. i comparable instance

ai, bi, ci-- Correction coefficient of transaction, location and physical condition of No. i comparable instance

- 2) The method of benchmark land price coefficient correction is a method using the urban benchmark land price and benchmark land price correction coefficient and other valuation results to compare the regional conditions and individual conditions of the valuation target with the average conditions of the area in which it is located based on the substitution principle, and then make correction to the benchmark land price according to the corresponding correction coefficient in the correction coefficient table, thus obtaining the price of the valuation target on the valuation date. We calculated the market value of land use rights by using the method of benchmark land price coefficient correction as follows:

Basic formula for the method of benchmark land price coefficient correction:

- (i) The above-ground parts included in the floor area

Land price per floor area = applicable benchmark land price × land use correction coefficient × daily correction coefficient × period correction coefficient × plot ratio correction coefficient × correction coefficient of regional and individual factors ± correction value of land development degree

- (ii) The underground parts not included in the floor area

Land price per floor area = applicable benchmark land price × correction coefficient of underground space for the corresponding use × daily correction coefficient × period correction coefficient × correction coefficient of regional and individual factors ± correction value of land development degree

- (2) Valuation of fixed assets - equipment

According to the purpose of valuation and the conditions of the assets to be appraised, the “replacement cost method” was adopted for valuation on the premise that the assets to be appraised would continue to be used. The calculation formula is as follows:

Appraisal value = full price for replacement × integrated depreciation rate

- 1) Determination of full price for replacement

The full price for replacement of the machine and equipment assets shall be determined comprehensively considering the various expenses (including freight and miscellaneous expenses, installation and commissioning fees) of the equipment in normal use, on the basis of the purchase price of the equipment.

The calculation formula is as follows:

Full price for replacement = purchase price + freight and miscellaneous expenses + installation and commissioning fees

The full price for replacement of the electronic equipment assets shall be determined comprehensively considering the various expenses (including transportation and miscellaneous expenses, installation and commissioning fees) of the equipment in normal use, on the basis of the purchase price of the equipment.

Purchase price of electronic equipment: The purchase price of electronic equipment on the valuation date shall be determined according to the recent market price data of local market information and the price of electronic equipment suppliers. Where the market price of the equipment on the valuation date is available, the market price shall prevail. Where the market price is not available, the purchase price shall be determined by analogy with the market price of similar equipment.

Freight and miscellaneous expenses: The charges for loading, unloading, transportation, purchase and storage of the equipment from the factory or place of origin to the installation site. For the equipment or small device for which the manufacturer is responsible for the freight, the freight will not be considered in the valuation.

Installation and commissioning fees: the cost of installation and commissioning of the equipment to be installed, mainly including the costs for the installation, commissioning and necessary painting of the equipment. For the equipment or small device for which the manufacturer is responsible for the installation and commissioning fees, the installation and commissioning fees will not be considered in the valuation.

For the outdated equipment, it is determined directly according to the purchase price in the second-hand market.

2) Determination of integrated depreciation rate

For electronic equipment, the integrated depreciation rate is determined via the service life method and the method of site scoring according to the economic life of all kinds of equipment based on the field survey for the equipment use.

The integrated depreciation rate = The theoretical depreciation rate × 40% + technical depreciation rate × 60%

3) Determination of appraisal value

The appraisal value is obtained by multiplying the full cost for replacement with the depreciation rate.

Appraisal value = full price for replacement × integrated depreciation rate

3. Valuation of liabilities

(1) Valuation of payables

The payables include accounts payable and other payables.

In the valuation of payables, the debts to be borne on the valuation date shall be determined after being investigated and analyzed on the basis of checking the account books, account tables and lists in accordance with the accounting audit data and other relevant information, in order to determine the appraisal value based on the verified book value.

(2) Salaries payable

In the valuation of salaries payable, the debts to be borne on the valuation date shall be determined on the basis of checking the account books, account tables and lists and reviewing the provision and use of the salaries payable, in order to determine the appraisal value based on the verified book value.

(3) Valuation of tax payable

In the valuation of tax payable, the debts to be borne on the valuation date shall be determined on the basis of checking the account books, account tables and lists and reviewing the accounts, data and tax return materials and other relevant materials, in order to determine the appraisal value based on the verified book value.

(4) Valuation of deferred income tax liabilities

In the valuation of deferred income tax liabilities, the debts to be borne on the valuation date shall be determined after being investigated and analyzed on the basis of checking the account books, account tables and lists in accordance with the accounting audit data and other relevant information, in order to determine the appraisal value based on the verified book value.

IV. Valuation Assumptions

1. This valuation report is effective provided that the relevant economic activity complies with the relevant provisions of national laws and regulations. The valuer and valuation firm are responsible for making professional judgment of the asset value set out in the paragraph of purpose of valuation, which does not involve any judgment of the legality of the economic activity to which the purpose of the valuation corresponded by the valuer and the valuation firm.
2. The valuation depended largely on information provided by the agent and the valued unit. Therefore, the valuation was carried out on the premise that the legal documents and valuation information such as documents on the economic activity, asset ownership files, certificates provided by the agent and the valued unit are true, complete and legal.
3. The valuation was carried out on the premise of the specific valuation purpose set out in this Asset Valuation Report.
4. The valuers made valuations in a simulative market based on the transaction conditions of the assets, assuming that the transaction of all the assets to be valued is underway.
5. It was assumed that both parties to the transaction of the assets traded or to be traded in the market were equal in status and had opportunities and time to get enough market information, for making rational judgment of the functions, usage and transaction price of the assets.
6. It was assumed that the relevant prevailing laws and regulations, policies and national macro-economic situation didn't change significantly, that there was no material change of politics, economy and social environment in the regions where the parties to the transaction are located, and that there was no adverse material impact caused by other unpredictable factors and force majeure.
7. It was assumed that the current use of the valued assets didn't change and the valued enterprise was a going concern.

8. It was assumed that the owners of the valued unit were responsible and its management members were competent for their positions.
9. It was assumed that the valued unit complied with all the relevant laws and regulations, except as otherwise described.
10. It was assumed that the accounting policies the company will adopt in the future were basically the same as those adopted for preparation of this report.
11. It was assumed that there was no material change of interest rate, exchange rate, tax base, tax rate, policy charges, etc.
12. It was assumed that there were no other force majeure and unpredictable factor which may have material adverse impact on the enterprise.

This valuation report and the valuation conclusion were the result based on the aforementioned assumptions and restrictions as well as the principles, basis, conditions, approaches and procedures determined herein, and will generally be invalid automatically if any of the aforementioned preconditions changes.

V. Valuation Results

Subject to the analysis of the basic situation of Chongqing HNA Hotel Investment Co., Ltd., the asset-based approach was applied to and the valuation conclusion was made based on the valuation. Upon valuation, as of the valuation date on 31 December 2019, the market value of total equity of shareholders of Chongqing HNA Hotel Investment Co., Ltd. under the valuation assumptions was as follows:

The book value and estimated value of assessed assets were RMB304,983,100 and RMB302,635,300, respectively, representing a value decrease of RMB2,347,800, with a value decrease rate of 0.77%. The value decrease was due to the changes in the value of investment real estate.

The book value and estimated value of assessed liabilities were RMB139,883,700 and RMB139,296,700, respectively, representing a value decrease of RMB587,100, with a value decrease rate of 0.42%.

The book value and estimated value of net assets were RMB165,099,400 and RMB163,338,600, respectively, representing a value decrease of RMB1,760,700, with a value decrease rate of 1.07%.

Summary Table of Asset Valuation Result of Chongqing HNA Hotel Investment Co., Ltd.

Valuation Date: 31 December 2019

Unit: RMB0'000

Item	Book	Estimated	Increase	Value
	value	value	or decrease	increase
	A	B	C=B-A	rate (%)
				D=C/A×100%
Current assets	5,920.71	5,920.71	0.00	0.00
Non-current assets	24,577.60	24,342.82	-234.78	-0.96
Investment real estate	24,576.93	24,342.09	-234.84	-0.96
Fixed assets	0.67	0.73	0.06	8.54
Total assets	30,498.31	30,263.53	-234.78	-0.77
Current liabilities	10,396.36	10,396.36	0.00	0.00
Non-current liabilities	3,592.02	3,533.31	-58.71	-1.63
Total liabilities	13,988.37	13,929.67	-58.71	-0.42
Net assets (owner's equity)	16,509.94	16,333.86	-176.07	-1.07

VI. Opinions on Valuation

The valuation date is 31 December 2019. Based on the intermediate exchange rate quoted by the Bank of China, namely RMB89.58 = HKD100, as of the valuation date, the fair value of the valued company's net assets was RMB163,338,600, or approximately HKD182,340,000.

VII. Restrictions on Use of This Valuation Report

1. This valuation report shall only be used for the purpose and use set forth herein.

Where the client or other asset valuation report users fail to use the Asset Valuation Report within the scope as set forth herein in accordance with the laws and administrative regulations, the asset valuation firm and its valuation specialists shall take no responsibility.

2. This valuation report shall only be used by the asset valuation report users set forth herein.

Any other agencies and individuals, other than the client, other asset valuation report users as agreed in the commission contract for asset valuation, and the asset valuation report users as stipulated by laws and administrative regulations, shall not be the users of the Asset Valuation Report.

3. Asset valuation report users shall have a correct understanding of the valuation conclusion, which is not equivalent to the realisable price of the valuation target and shall not be deemed as a guarantee for the realisable price of the valuation target.
4. The valuation results reflect the prevailing fair market value of the valuation target determined according to the principles in an open market, under the valuation purpose and assumptions, without taking into account the impact of potential increase/decrease of the price by special counterparties on the valuation price, or that of any changes in national macroeconomic policies or the occurrence of natural forces or other force majeure on the asset price. In case of changes in any of the aforesaid conditions, the assumptions adopted in the valuation, the principles for changes of the owners of property rights and otherwise, the valuation results generally will be invalid.
5. None of this valuation report or any part hereof may be copied, quoted or published in a public medium without the approval of this valuation firm of the contents, unless otherwise provided in any applicable law, regulation or as agreed between the parties;
6. Validity of valuation conclusion

Pursuant to relevant national regulations, the validity of the valuation conclusion on this report shall be one year, commencing on the valuation date, i.e. 31 December 2019. The valuation report shall only be relied upon where the valuation date is less than one year from the date of the realisation of the business activity.
7. All or any part of this report is subject to the interpretation of Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

VIII. Note to Special Matters

1. In accordance with the Property Ownership Certificate provided by the owner, the date of expiry of land use of the investment real estate in this valuation is 28 July 2032. As of the valuation date, the residual use life is 12.58 years. It is understood by the valuation staff accompanying the property owner from the Land Utilization Office of Chongqing Municipal Bureau of Planning and Natural Resource that as of the valuation date, there is no need to change the plans for the above land, and also no relevant policies and regulations for whether the term of land use right shall be extended upon the expiry of such term; in accordance with Article 41 of Interim Regulations Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas, in case of expiry of the term of the land use rights, land users can apply for the renewal. Land users who need to extend the term shall conclude a contract again, pay the grant fee for land use rights and handle registration formalities according to regulations in Chapter II of the Interim Regulations. The valuation conclusion in this valuation shall be calculated according to the use term from the continuous use upon the supplemental payment of the land to the economic life of buildings. In case of inconformity with the final regulations of relevant authorities, the conclusion shall be adjusted according to the regulations of relevant authorities.

2. On 11 March 2019, Chongqing HNA Hotel Investment Company Limited and the Shenzhen Branch of China Minsheng Banking Corp., Ltd. entered into the Mortgage Contract (Gong Dan Di Zi Di Ji Tuan-No. 1900102). The real estate of Chongqing HNA Hotel Investment Company Limited located at No. 2 Jialing Bridge West Village, Yuzhong District, with an area of 18,143.40 m², is used as part of the collateral for the mortgage loan of RMB577,590,000.00 to Grand China Air Co., Ltd. (大新華航空有限公司) starting from 11 March 2019 to 11 March 2020. As of the valuation date, it has not been released.

On 14 April 2020, Chongqing HNA Hotel Investment Company Limited, Grand China Air Co., Ltd. and Shenzhen Branch of China Minsheng Banking Corp., Ltd. entered into the Loan Supplementary Agreement (No.: Gong Dai Bian Zi Di Ji Tuan No. 2000301), pursuant to which, the above terms of mortgage and loan have been extended. Upon extension, the mortgage term will be from 11 March 2019 to 27 March 2021.

3. According to the Special Legal Opinion on Matters concerning the Special Verification on the Property Ownership of Chongqing HNA Hotel Investment Company Limited, except for the properties (with a lease term from 24 May 2013 to 23 May 2028) leased to two branches of Huazhu Hotel Management Co., Ltd. and the mortgage guarantee under the Mortgage Contract (Gong Dan Di Zi Di Ji Tuan-No. 1900102) entered into between Chongqing HNA Hotel Investment Company Limited and the Shenzhen Branch of China Minsheng Banking Corp., Ltd. on 11 March 2019, there is no other mortgage or encumbrance on the property.

These property assets are legally owned by Chongqing HNA Hotel Investment Company Limited. HNA Hotel may occupy, use, lease, transfer or dispose of the property by other means in accordance with relevant laws and regulations. Upon verification, a mortgage has been established on the aforementioned property. As stipulated in Article 192 of the Property Law of the People's Republic of China, "During the period of mortgage, the mortgagor, without the consent of the mortgagee, shall not transfer the mortgaged property, unless the mortgage right is eliminated when the assignee pays off the debts on its behalf". Therefore, the transfer of mortgaged property by HNA Hotel shall be subject to the consent of the mortgagee.

According to the provisions under Article 176 of the Property Law, a third party providing a guarantee shall be entitled to institute recourse against the debtor after assuming the guarantee liability. After the expiration of the Loan Supplementary Agreement, Chongqing HNA Hotel Investment Company Limited is entitled to institute recourse against the principal debtor Grand China Air Co., Ltd., provided that it assumed the liability of mortgage guarantee. Therefore, the mortgage right and asset limitations in the proposed share transfer will not affect the realization of the economic action.

4. Chongqing HNA Hotel Investment Company Limited leased its properties with a total area of 18,143.40 m² to two branches (Chongqing Qiaoxi Village Branch, Chongqing Qiaoxi Village Second Branch) under Huazhu Hotel Management Co., Ltd. for hotel operation, with a lease term from 24 May 2013 to 23 May 2028. The rent for the first year is RMB8.2 million, and increases by 5% every 3 years. Since the rents of the above-mentioned leases were not paid in one lump, the effect of the above leases on property value was not considered in the valuation.

IX. Address of Valuation Institution

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

Beijing Headquarters Address: Room 3501, 5/F, No. 81 Fengbei Road, Fengtai District, Beijing

Address of Hainan Office: Room 102, Xin Da Business Building, No. 5 Huafu Road, Longhua District, Haikou City, Hainan Province

X. Experience Introduction of Valuers

Huang Yinshu, a registered member of the China Appraisal Society with a practising certificate numbered 46100002, has more than ten years of experience. In addition to certificate of certified public valuer, Huang Yinshu also owns certificates of certified real estate appraiser, land appraiser, economist, etc., and has excellent leadership, strong professional ability and extensive knowledge. Huang Yinshu is now a member of the China Institute of Real Estate Appraisers and Agents (CIREA).

Huang Haibing, a registered member of the China Appraisal Society with a practising certificate numbered 46180009, obtained his bachelor's degree from North University of China in international economics and trade in 2009. Huang Haibing is a certified public valuer, a certified public accountant and a real estate appraiser, and has ten years of experience. Huang Haibing is now a member of the China Institute of Real Estate Appraisers and Agents (CIREA).

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

Huang Yinshu

Huang Haibing

3 June 2020

Annexes

1. Commitment letters of the client and the assessee
2. Accounting statements of the assessee as of the valuation date
3. Corporate business licenses of the client and the assessee
4. A photocopy of duplicate of the corporate business license of the valuation firm
5. Copies of the valuation firm's certificates of valuation qualifications in business relating to securities and futures
6. Copies of filing announcements issued by the valuation firm
7. Copies of certificates of qualification of valuation specialists responsible for the valuation

The following is the text of the Property Valuation Report, prepared for the purpose of incorporation in this circular received from Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd., in connection with its valuation as at 31 March 2020 of the Property.

Property Valuation Certificate for Investment Real Estate

Hainan Garden Lane Flight Hotel Management Co., Ltd.,

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd. (中威正信(北京)資產評估有限公司), was engaged by Hainan Garden Lane Flight Hotel Management Co., Ltd. (海南逸唐飛行酒店管理有限公司) to assess the market value of the property of Chongqing HNA Hotel Investment Company Limited (重慶海航酒店投資有限公司) with an area of 18,143.40 m² and an area of shared land tenure of 1,243.85 m² at No. 2 Jialing Bridge West Village, Yuzhong District, Chongqing City as at 31 March 2020, the valuation date, in accordance with relevant laws and regulations and in compliance with all necessary procedures by adopting the asset-based method. The valuation is set out below:

Valuation date: 31 March 2020. All the pricing standards are subject to price standards effective as at the valuation date.

I. Profile of Asset

1. Property conditions

(1) Basic information on the land

The valuation target is situated at No. 2 Jialing Bridge West Village, Yuzhong District, Chongqing City, with Shangqing Temple Road to the east, Pacific Square to the south, Post Hospital to the west, and Jialing Bridge Road to the north. The actual infrastructure development in the area reaches a high level, with road, electricity, communication, feed water supply, sewage water treatment, gas and land leveling. The landscape is flat, and there is no abnormal geological phenomenon. All streets are one-way. It has no special restrictions on urban planning and is of convenient public transportation.

(2) Basic information on the building

Located at No. 2 Jialing Bridge West Village, Yuzhong District, the investment real estate in this valuation is a barrel-shaped building built in 1996 with a reinforced concrete structure and has been used for about 24.01 years as of the valuation date. The property has a total area of 18,143.40 m² and a total area of shared land tenure of 1,243.85 m² with 2 floors underground and 32 floors above ground. Relevant certificates of title have been obtained with a total of 8 real estate certificates for different floors. The certificate number is 101 Fang Di Zheng 2008 Zi No. 32097 to 101 Fang Di Zheng 2008 Zi No. 32104. Currently, the property is leased to two branches (Chongqing Qiaoxi Village Branch, Chongqing Qiaoxi Village Second Branch) under Huazhu Hotel Management Co., Ltd. for hotel operation, with a lease term from 24 May 2013 to 23 May 2028. The rent for the first year is RMB8.2 million, and increases by 5% every 3 years. At present, the target is used for hotel operation and is operated under the names of All Seasons Hotel and Hanting Hotel. The property is in good condition.

2. Equity status

(1) Property right

The valuation target has obtained the relevant certificates of title, which are as follows:

101 Fang Di Zheng 2008 Zi No. 32097			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floors 14, 16-31, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	624.51 m ²	Floor	Physical floor
Area of joint land tenure	4,769.5 m ²	Gross floor area	9,109.47 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	8,564.74 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32098			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floor 15, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	37.12 m ²	Floor	Nominal floor 15, physical floor 17
Area of joint land tenure	4,769.5 m ²	Gross floor area	541.43 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	509.05 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32099			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floors 4 and 5, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	93.57 m ²	Floor	Physical floor
Area of joint land tenure	4,769.5 m ²	Gross floor area	1,364.9 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	1,260.61 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32100			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floor basement 1, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	38.53 m ²	Floor	Nominal floor -1, physical floor 2
Area of joint land tenure	4,769.5 m ²	Gross floor area	562.04 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	510.11 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32101			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floor 1, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	35.17 m ²	Floor	Nominal floor 1, physical floor 3
Area of joint land tenure	4,769.5 m ²	Gross floor area	512.97 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	469.32 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32102			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floor 2, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	56.15 m ²	Floor	Nominal floor 2, physical floor 4
Area of joint land tenure	4,769.5 m ²	Gross floor area	818.97 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	695.46 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32103			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floors 6-13, 32, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	326.24 m ²	Floor	Physical floor
Area of joint land tenure	4,769.5 m ²	Gross floor area	4,758.73 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	0 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

101 Fang Di Zheng 2008 Zi No. 32104			
Holder	Chongqing HNA Hotel Investment Company Limited		
Name and number	Business license: 500103000004005		
Location	Nominal floor 33, No. 2 Jialing Bridge West Village, Yuzhong District		
Cadastral number	YZ1-8-33		
Type of land tenure	Assignment	Building structure	Reinforced concrete
Land use	Commercial	Use of premises	Non-residential
Area of shared land tenure	32.56 m ²	Floor	Nominal floor 33, physical floor 35
Area of joint land tenure	4,769.5 m ²	Gross floor area	474.89 m ²
Date of expiry of land tenure	28 July 2032	Net floor area	446.49 m ²
Public or common parts and facilities	Elevator machine room, bathroom, water tank, staircase, walkway, etc.		

(2) Equity status

1) Lease

Chongqing HNA Hotel Investment Company Limited leased its real estate with a total area of 18,143.40 m² to two branches (Chongqing Qiaoxi Village Branch, Chongqing Qiaoxi Village Second Branch) under Huazhu Hotel Management Co., Ltd. for hotel operation, with a lease term from 24 May 2013 to 23 May 2028. The rent for the first year is RMB8.2 million, and increases by 5% every 3 years.

2) Guarantee such as mortgage

On 11 March 2019, Chongqing HNA Hotel Investment Company Limited and the Shenzhen Branch of China Minsheng Banking Corp., Ltd. entered into the Mortgage Contract (Gong Dan Di Zi Di Ji Tuan-No. 1900102). The real estate of Chongqing HNA Hotel Investment Company Limited located at No. 2 Jialing Bridge West Village, Yuzhong District, with an area of 18,143.40 m², is used as part of the collateral for the mortgage loan of RMB577,590,000.00 to Grand China Air Co., Ltd. (大新華航空有限公司) starting from 11 March 2019 to 11 March 2020. As of the valuation date, it has not been released.

On 14 April 2020, Chongqing HNA Hotel Investment Company Limited, Grand China Air Co., Ltd. and Shenzhen Branch of China Minsheng Banking Corp., Ltd. entered into the Loan Supplementary Agreement (No.: Gong Dai Bian Zi Di Ji Tuan No. 2000301), pursuant to which, the above terms of mortgage and loan have been extended. Upon extension, the mortgage term will be from 11 March 2019 to 27 March 2021.

3) Legal opinion

Pursuant to the Special Legal Opinion on Matters concerning the Special Verification on the Property Ownership of Chongqing HNA Hotel Investment Company Limited, except for the properties (with a lease term from 24 May 2013 to 23 May 2028) leased to two branches of Huazhu Hotel Management Co., Ltd. and the mortgage guarantee under the Mortgage Contract (Gong Dan Di Zi Di Ji Tuan-No. 1900102) entered into between Chongqing HNA Hotel Investment Company Limited and the Shenzhen Branch of China Minsheng Banking Corp., Ltd. on 11 March 2019, there is no other mortgage or encumbrance on the property.

These property assets are legally owned by Chongqing HNA Hotel Investment Company Limited. HNA Hotel may occupy, use, lease, transfer or dispose of the property by other means in accordance with relevant laws and regulations. Upon verification, a mortgage has been established on the aforementioned property. As stipulated in Article 192 of the Property Law of the People's Republic of China, "During the period of mortgage, the mortgagor, without the consent of the mortgagee, shall not transfer the mortgaged property, unless the mortgage right is eliminated when the assignee pays off the debts on its behalf". Therefore, the transfer of mortgaged property by HNA Hotel shall be subject to the consent of the mortgagee.

According to the provisions under Article 176 of the Property Law, a third party providing a guarantee shall be entitled to institute recourse against the debtor after assuming the guarantee liability. After the expiration of the Loan Supplementary Agreement, Chongqing HNA Hotel Investment Company Limited is entitled to institute recourse against the principal debtor Grand China Air Co., Ltd., provided that it assumed the liability of mortgage guarantee. Therefore, the mortgage right and asset limitations in the proposed share transfer will not affect the realization of the economic action.

4) Classification by use of the properties held

The properties are recognised as held-for-investment properties by the assessee, according to on-site investigation and the enterprise's way to operate the properties.

5) Special notes to valuation

Chongqing HNA Hotel Investment Company Limited leased its properties with a total area of 18,143.40 m² to two branches (Chongqing Qiaoxi Village Branch, Chongqing Qiaoxi Village Second Branch) under Huazhu Hotel Management Co., Ltd. for hotel operation, with a lease term from 24 May 2013 to 23 May 2028. The rent for the first year is RMB8.2 million, and increases by 5% every 3 years. Since the rents of the above-mentioned leases were not paid in one lump, the effect of the above leases on property value was not considered in the valuation.

(3) Geographical condition

Situated at No. 2 Jialing Bridge West Village, Yuzhong District, Chongqing City, the valuation target is operated under the names of All Seasons Hotel and Hanting Hotel, adjacent to the Municipal Government Building. It is favourably located, 1.36 km away from Chongqing Railway Station, 4.24 km away from Chaotianmen Wharf, 20 km away from Jiangbei International Airport, 1.4 km away from Chongqing Bus Station, making it an ideal place for commercial activities and business gathering.

II. Technical Route of Measurement

1. Technical route of valuation

The comparison method was used to measure investment properties, while the method of benchmark land price coefficient modification was used for land use rights involved.

The effect on property value of short-term land use life of the valuation target was not considered in the property value measured by the comparison method. During the measurement, the method of benchmark land price coefficient modification was used to measure the grant fee from expiration of the apportioned land use right to the end of the service life of the building. The valuation less the grant fee is the market value of the investment properties involved in the valuation as of the valuation date.

According to the on-site investigation, it was found that expiration date of the land use right of the investment property appraised is 28 July 2032. The remaining service life as of the valuation date is 12.58 years, and the remaining economic life of the above-ground building is 35.99 years. The valuer accompanied the property owner to the Land Use Department of Chongqing Planning and Natural Resources Bureau and learned that there was no need to change the planning by the above valuation date of land appraisal, and there was no relevant policy provision on whether to extend the term of the land use right after the expiration of the land use right. According to Article 41 of the Interim Regulations on the Assignment and Transfer of the Right to the Use of State-owned Land in Cities and Towns, the land user may apply for renewal of the right to the use of the land when the term of land use right expires. Where a renewal is required, a new contract shall be signed in accordance with the provisions of Chapter 2 of the Regulations, the land-use right grant fee shall be paid and registration shall be made. In this valuation, the disposal of the expired land use right was carried out according to the above Regulations. If it is inconsistent with the final provisions of the relevant authority, the conclusion shall be adjusted according to the provisions of the relevant authority.

2. Grounds for method selection

According to the characteristics of the valuation target and the purpose of valuation as well as the property valuation theory and method as well as the actual situation of the Chongqing property market, the valuer analyzed the project and adopted the comparison method for the following reasons:

In recent years, the property market in Chongqing has been fully developed. There are many cases of transactions similar to the valuation target in Chongqing, and the comparability is strong. In valuing the Property, we have made reference to the recent comparable sales data based on the asking prices of the available real estate properties in the locality which have similar characteristics, such as the operation condition and location. In this valuation, the comparables existing in the open online sales platform were selected. The selected comparables are commercial properties for hotel operation and located in the downtown business of the district of the Property. The valuation is based on the sales price of the same property type, which can best reflect the market value of the Property in the property market. Therefore, the comparison method is the preferred method for the valuation in the areas with active property transactions.

The effect on property value of short-term land use life of the valuation target was not considered in the property value measured by the comparison method. During the measurement, the method of benchmark land price coefficient modification was used to measure the grant fee from expiration of the apportioned land use right to the end of the service life of the building. The valuation less the grant fee is the market value of the investment properties involved in the valuation as of the valuation date.

The Land Adjustment is calculated based on the latest benchmark land price published in 2016 by the Bureau of Land and House Administration of Chongqing* (重慶市國土房管局) and adjusted by, among others, the current published land price index in Chongqing published by China Land Value Information Service Platform Platform* (中國地價信息服務平台), the remaining term of the land use rights, the floor area ratio, the development degree of the land and other area and physical factors, etc., in accordance with the requirements under the Standards.

3. Selection standards for the comparison method

Pursuant to Chapter 4.2.3 of the Code for Real Estate Appraisal, the comparable instance shall meet the following requirements:

- (1) the comparable instance shall be selected from the transaction cases and the number of it shall not be less than 3;
- (2) the way of transaction of the comparable instance shall be consistent with the valuation purpose;
- (3) the comparable instance shall be similar to the valuation target;
- (4) the delivery date of the comparable instance shall be close to the valuation date, and shall be less than 1 year and not be more than 2 years from the valuation date;
- (5) the transaction price of the comparable instance shall be normal or may be amended to be normal; and
- (6) under the same conditions, the transaction property of which the location is nearer to the valuation target and the transaction date is closer to the valuation date shall be selected as the comparable instance.

According to the substitution principle in the real estate transactions, the valuer, based on the thorough analysis of the characteristics of the valuation target, shall select 3 cases as the comparable instances following the principles of the same functions, similar structures and decoration standards, as well as the same or similar locations according to the information collected by the valuer through market research.

III. Valuation Results

1. Determination of valuation results

Upon measurement using the comparison method and the method of benchmark land price coefficient modification, the market value of the investment real estate held by Chongqing HNA Hotel Investment Company Limited on the valuation date, i.e. 31 March 2020, is RMB243,420,938.00, provided that the assumptions in this report are tenable. See the table below for details:

Unit: RMB

Certificate No.	Area of land tenure	Area of joint land tenure	Gross floor area	Floor	Price of land per unit (RMB/m ²)	Price of land	Total price of the property	Deduction of price of land in arrears
101 Fang Di Zheng 2008 Zi No. 32097	624.51	4,769.50	9,109.47	14, 16-31	25,453.00	15,895,653.00	140,285,838.00	124,390,185.00
101 Fang Di Zheng 2008 Zi No. 32098	37.12	4,769.50	541.43	15	25,453.00	944,815.00	8,338,022.00	7,393,207.00
101 Fang Di Zheng 2008 Zi No. 32099	93.57	4,769.50	1,364.90	4, 5	25,453.00	2,381,637.00	21,019,460.00	18,637,823.00
101 Fang Di Zheng 2008 Zi No. 32100	38.53	4,769.50	562.04	-1	25,453.00	980,704.00	4,327,708.00	3,347,004.00
101 Fang Di Zheng 2008 Zi No. 32101	35.17	4,769.50	512.97	1	25,453.00	895,182.00	7,899,738.00	7,004,556.00
101 Fang Di Zheng 2008 Zi No. 32102	56.15	4,769.50	818.97	2	25,453.00	1,429,186.00	12,612,138.00	11,182,952.00
101 Fang Di Zheng 2008 Zi No. 32103	326.24	4,769.50	4,758.73	6-13, 32	25,453.00	8,303,787.00	73,284,442.00	64,980,655.00
101 Fang Di Zheng 2008 Zi No. 32104	32.56	4,769.50	474.89	33	25,453.00	828,750.00	7,313,306.00	6,484,556.00
Total	1,243.85		18,143.40			31,659,714.00	275,080,652.00	243,420,938.00

2. The valuation date is 31 March 2020. Based on the intermediate exchange rate quoted by the Bank of China, namely RMB91.37 = HKD100, the fair value of the investment real estate of the valued company as of the valuation date is RMB243,420,938.00, or approximately HKD266,412,321.00.

Certified Public Valuer:

Huang Yinshu, a registered member of the China Appraisal Society with a practising certificate numbered 46100002, has more than ten years of experience. In addition to certificate of certified public valuer, Huang Yinshu also owns certificates of certified real estate appraiser, land appraiser, economist, etc., and has excellent leadership, strong professional ability and extensive knowledge. Huang Yinshu is now a member of the China Institute of Real Estate Appraisers and Agents (CIREA).

Certified Public Valuer:

Huang Haibing, a registered member of the China Appraisal Society with a practising certificate numbered 46180009, obtained his bachelor's degree from North University of China in international economics and trade in 2009. Huang Haibing is a certified public valuer, a certified public accountant and a real estate appraiser, and has ten years of experience. Huang Haibing is now a member of the China Institute of Real Estate Appraisers and Agents (CIREA).

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

Headquarters Address: Room 3501, 5/F, No. 81 Fengbei Road, Fengtai District, Beijing

Address of Hainan Office: Room 102, Xin Da Business Building, No. 5 Huafu Road, Longhua District, Haikou City, Hainan Province

Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.

Huang Yinshu

Huang Haibing

3 June 2020

1. 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 not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Directors', Supervisors' and Chief Executive's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company has an interest or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is 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 the Directors or supervisors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept 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 Listed Issuers.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, supervisors and chief executives of the Company, the persons (other than Directors, supervisors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Long positions in the shares, underlying shares and debentures of the Company:

Shareholder	Number of Shares held	Approximate percentage in the Company's share capital
Beijing Haihongyuan ^(Note 1)	81,494,850 A Shares	9.33%
HNA Hotel Group (Hong Kong) Company Limited ^(Note 2)	155,830,000 H Shares	15.14%

Notes:

- To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, such Shares are held by Beijing Haihongyuan, which is owned as to 100% by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group, which in turn is owned as to 70% by Hainan Traffic Administration Holding Company Limited (海南交管控股有限公司), which in turn is owned as to 50% owned by Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司), which in turn is owned as to 65% by Hainan Province Cihang Foundation (海南省慈航公益基金會).
- To the best knowledge of the Directors and upon completion of the Subscription, in the event that such completion takes place, such H Shares will be held by the Subscriber, HNA Hotel Group (Hong Kong) Company Limited, which is wholly owned by HNA Guoshang Hotel Management Company Limited (海南國商酒店管理有限公司), which in turn is owned as to 76.92% by the Vendor, HNA Hotels Holding Group Limited (海航酒店控股集團有限公司), which in turn is owned as to 86.73% by Beijing Haihongyuan, which in turn is owned as to 100% by HNA Tourism Group, which in turn is owned as to 69.96% by HNA Group, which in turn is owned as to 70% by Hainan Traffic Administration Holding Company Limited (海南交管控股有限公司), which in turn is owned as to 50% owned by Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司), which in turn is owned as to 65% by Hainan Province Cihang Foundation (海南省慈航公益基金會). As at the Latest Practicable Date, the transaction contemplated under the Subscription has not yet been completed and may or may not be completed.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executive of the Company, no other person has an interest or short position in shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, or have or may have any other conflicts of interest with the Group.

4. NO MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors has any material interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of any compensation (other than statutory compensation).

6. LITIGATION

References are made to the announcements dated 7 July 2017, 1 August 2018, 23 July 2019, 22 August 2019 and 28 August 2019 made by the Company.

As at the Latest Practicable Date, the claims known to the Directors which are pending against the Company are disclosed as follows:

- (a) On 5 July 2017, the Company received the Notice of Appearance (Liao 01 Min Chu (2017) No. 430), the bill of indictment and other related litigation materials served by Liaoning Shenyang Municipal Intermediate People's Court in respect of an alleged breach of the Agreement on the Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd., the Agreement on the Proper Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd. and the Supplemental Agreement on the Proper Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd. (collectively, the "**Agreements**"), entered into between Shenyang Tiexi District State – owned Assets Supervision and Administration Bureau (the "**Plaintiff**"), the Company and Shenyang High Voltage Switchgear Co., Ltd. (the "**2nd Defendant**") on 9 May 2007, 30 June 2008 and 28 November 2008, respectively, pursuant to which the Company shall pay the total employee resettlement fee of RMB132.39 million (equivalent to approximately HK\$144.89 million) for which the 2nd Defendant shall bear joint liability and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd. shall provide joint and several guarantee in relation thereto. The Plaintiff claimed against the Company for the arrears of RMB28.53 million (equivalent to approximately HK\$31.22 million) under the Agreements, interest of RMB7,788,690 (equivalent to approximately HK\$8,523,408) and liquidated damages of RMB1,426,500 (equivalent to approximately HK\$1,561,064), totalling RMB37,745,190 (equivalent to approximately HK\$41,305,745) resulting from the alleged breach of the Agreements.

On 12 June 2018, the case was heard in the Shenyang Intermediate People's Court. On July 18, the Shenyang Intermediate People's Court issued a civil written order ((2017) Liao 01 Min Chu No.430). The Shenyang Intermediate People's Court held that when the Plaintiff reclaimed its rights to the Company on 21 July 2016, it has been more than two years of statute of limitations. The Shenyang Intermediate People's Court rejected the claim that the Plaintiff requested the Company to pay arrears of RMB28.53 million, interest and liquidated damages.

The Plaintiff has launched an appeal to the Higher People's Court of Liaoning Province against the above judgement. On 21 August 2019, a civil order ((2018) Liao Min Zhong No. 1032) was issued by Liaoning Provincial Higher People's Court 9, stating that the civil judgment (Liao 01 Min Chu (2017) No. 430) issued by the Shenyang Intermediate People's Court shall be abrogated and a retrial for this case shall be performed by Liaoning Shenyang Municipal Intermediate People's Court. The Company will timely perform its announcement obligation in relation to the progress of the case according to the Listing Rules and relevant regulations.

According to the legal opinion and based upon the principle of financial prudence, in 2017, the Company has set aside the provision for estimated liabilities according to the amount of money involved in the case of RMB37,745,190, with details referring to the 2017 Operating Results Forecast published on 31 January 2018, as well as the 2017 Annual Report published on 29 March 2018.

- (b) On 16 July 2019, the Company received the Notice of Appearance ((2019) Qiong 96 Min Chu No.381), the bill of indictment, and other related litigation materials served by the First Intermediate People's Court of Hainan Province, in respect of a claim by Fushun Electric Porcelain Co., Ltd. (the "**Plaintiff**") that (i) the Company fails to fulfill its investment obligation in accordance with the law, which is to transfer the equity of Shenyang High Voltage Switchgear Co., Ltd. ("**Shenyang High-volt**"), and Shenyang High-volt fails to fulfill its investment obligation in accordance with the law, which is to transfer the equity of New Northeast Electric (Shenyang) High-voltage Insulation Switches Co., Ltd. ("**New Northeast Insulation**"); (ii) the Company and Shenyang High-volt shall be liable for the debt of RMB11,258,221.34 and the interest of New Northeast Insulation and the Plaintiff; and the interest generated during the period of delayed performance within the scope of non-investment according to law (i.e. the value range of land use rights of No. 39, East Shentie Road); and (iii) Shenyang High-volt and the Company should be added as persons subject to enforcement for the case of Fushun Intermediate People's Court of Liaoning Province ((2015) Fu Zhong Zhi Zi No.00140).

The court hearing has not yet been held for the case. The Company will timely perform its announcement obligation in relation to the progress of the case according to the Listing Rules and relevant regulations.

- (c) On 26 November 2019, the Shenyang Railway Transport Intermediate Court ("**SRTIC**") published an announcement in the People's Court Daily in respect of the serving to the Company of the Enforcement Judgement No.1 ((2019) Liao 71 Zhi Hui No.2). Such announcement concerned the dispute over the recovery of financial indebtedness among Liaoning Branch of China Orient Asset Management Co., Ltd., Shenyang Transformers Ltd. and Shenyang High-volt. According to the said announcement, it was ruled that RMB48,000,000 in the due debts of RMB270,000,000 and the interests owed by the person subject to enforcement, namely Shenyang High-volt, to the Company be enforced. Such due debts refers to the due claim of RMB 270 million payable by the Company to Shenyang High-volt in the litigation case of China Development Bank (the "**CDB**") with final judgement.

The Company has raised an enforcement objection to the SRTIC in respect of the Enforcement Judgement No.1 ((2019) Liao 71 Zhi Hui No.2) published by the SRTIC. The Company is of the view that in the light of the final judgement of the Supreme Court on the CDB case, the Company will only need to compensate a maximum amount of RMB272,627,700 to Shenyang HVS and a provision has been made for the full amount in the fiscal year of 2017.

Save as disclosed above, so far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was involved in any other litigation or claim of material importance and there was no other litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2019, being the date to which the latest audited financial statements of the Group were made up.

8. EXPERTS' QUALIFICATION AND CONSENT

The followings are the experts, and their qualification, who have given opinion contained in this circular:

Name	Qualification
Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.	Independent professional valuer
BaoQiao Partners Capital Limited	A corporation licensed to carry Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

As at the Latest Practicable Date, Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd. and BaoQiao Partners Capital Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters advice, opinion and/or reports and references to their names in the form and context in which they respectively appeared.

As at the Latest Practicable Date, Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd. and BaoQiao Partners Capital Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd. and BaoQiao Partners Capital Limited were not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest audited financial statements of the Group were made up.

9. MISCELLANEOUS

- (i) The registered office of the Company is located at 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).
- (ii) The business and correspondence address of the Company is 22nd Floor, HNA Plaza, No.7 Guoxing Road, Haikou City, Hainan Province.
- (iii) The principal place of business of the Company in Hong Kong is located at 17/F., Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong.
- (iv) The transfer office of the Company in Hong Kong is Boardroom Share Registrars (HK) Limited at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong.
- (v) The company secretary and authorised representative of the Company is Mr. Chan Yee Ping, Michael, who is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 17 years' working experience in accounting, taxation, and audit and company secretary.
- (vi) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on business days of Hong Kong, being a day (other than Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong) at 17/F., Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (c) the advice letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

- (d) the Target Company Valuation Report, the text of which is set out in appendix I to this circular;
- (e) the Property Valuation Report, the text of which is set out in appendix II to this circular;
- (f) the letters of consent referred to under the paragraph headed “Experts’ qualification and consent” in this appendix;
- (g) the Agreement; and
- (h) this circular.

NOTICE OF EGM

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



東北電氣發展股份有限公司

NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

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

(Stock Code: 0042)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Northeast Electric Development Company Limited (the “**Company**”) will be held at the Conference Room, Floor 22, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province, the PRC on Monday, 29 June 2020 at 11:00 a.m for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

“**THAT:**

- (1) the Agreement (as defined in the circular of the Company dated 3 June 2020) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (2) any one or more of the directors of the Company be and are hereby authorised to do all such things and acts as he may in his discretion consider as necessary, expedient or desirable for the purpose of or in connection with the Agreement and the transactions contemplated thereunder, including but not limited to the execution all such documents under seal where applicable, as he or they consider necessary or expedient in his or their opinion to implement and/or give effect to the Agreement and the transactions contemplated thereunder.”

By order of the Board
Northeast Electric Development Company Limited
Zhu Jie
Chairman

Haikou, Hainan Province, the PRC

3 June 2020

As at the date of the Notice, the Board comprises of three executive Directors, namely Mr. Zhu Jie, Mr. Bao Zongbao and Mr. Su Weiguo; and three independent non-executive Directors, namely Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong.

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 19 June 2020 is entitled to attend the EGM.
- (2) In order to confirm the list of holders of H Shares of the Company who are entitled to attend the EGM, the register of shareholders of the Company will be closed from 22 June 2020 to 29 June 2020 (both days inclusive), during which period no transfer of shares will be registered. The H share shareholders whose names appear on the register of the Company by the close of business on 19 June 2020 are entitled to attend the EGM and vote at the EGM.
- (3) 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, 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on 19 June 2020.
- (4) Shareholders of the Company who intend to attend the EGM shall mail or fax the written reply for attending the EGM to the Company before 19 June 2020.
- (5) Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies (whether or not shareholder of the Company) to attend and vote at the EGM on his/her behalf.
- (6) In order to be valid, the proxy forms of shareholders and other documents (if any) should be deposited at the Company or the Company's H Share registrar no later than 24 hours before the time appointed for holding the EGM.
- (7) Shareholders of the Company or their proxies attending the EGM shall bear their own travel and accommodation expenses.

Office Address : Floor 22, HNA Plaza, No.7 Guoxing Road, Haikou City, Hainan Province, the PRC
(Postcode : 570203)

Telephone : (86) 0898-68876008

Fax : (86) 0898-68876033

Contact : Ju Meng