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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser or transferee.

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

(Stock Code: 0042)

**(1) MAJOR TRANSACTION IN RELATION TO DISPOSAL OF 100%  
EQUITY INTERESTS IN NEW NORTHEAST  
ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD.  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A notice convening an extraordinary general meeting (the “EGM”) of the shareholders of the Northeast Electric Development Co., Ltd. (the “Company”) to be held at the Conference Room, Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC on 25 May 2018 (Friday) at 10:00 a.m., are set out on pages 74 to 76 of this circular.

If you intend to attend the EGM, please complete and return the reply slip in accordance with the instructions printed thereon as soon as possible and in any event no later than 5 May 2018.

Whether or not you propose 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's H Share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21th Floor, 148 Electric Road, North Point Hong Kong 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.

10 April 2018

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## CONTENTS

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<b>DEFINITIONS .....</b>	<b>1</b>
<b>LETTER FROM THE BOARD.....</b>	<b>5</b>
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP .....</b>	<b>20</b>
<b>APPENDIX II – GENERAL INFORMATION .....</b>	<b>24</b>
<b>APPENDIX III – ASSET ASSESSMENT REPORT .....</b>	<b>32</b>
<b>APPENDIX IV – REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD .....</b>	<b>68</b>
<b>NOTICE OF EXTRAORDINARY GENERAL MEETING .....</b>	<b>74</b>

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## DEFINITIONS

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

<b>“A Shares”</b>	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
<b>“Announcement”</b>	announcement of the Company dated 17 September 2017 in relation to the Disposal
<b>“Board”</b>	the board of Directors
<b>“Business Day”</b>	a day (other than Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning is hoisted) on which licensed banks are generally open in Hong Kong for general banking business throughout their normal business hours
<b>“Asset Assessment Report”</b>	the assessment report entitled “東北電氣發展股份有限公司擬股權轉讓所涉及的新東北電氣（錦州）電力電容器有限公司股東全部權益價值評估報告” dated 14 September 2017 of the value of the whole interests in the Target Company, produced by the Valuer, of which the date of assessment determination is 31 July 2017
<b>“Company”</b>	Northeast Electric Development Co., Ltd. (東北電氣發展股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose A Shares and H Shares are listed on the Shenzhen Stock Exchange and the Stock Exchange, respectively
<b>“Completion”</b>	the completion of the Equity Transfer Agreement
<b>“Conditions Precedent”</b>	the conditions precedent set out in the Equity Transfer Agreement
<b>“Connected Person”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Consideration”</b>	RMB135,000,000, being the consideration to be paid by the Purchaser to the Vendors in accordance with the Equity Transfer Agreement
<b>“Disposal”</b>	the disposal of the Sale Shares by the Vendors to the Purchaser pursuant to the Equity Transfer Agreement

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## DEFINITIONS

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“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purposes of approving, among other things, the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the agreement dated 17 September 2017 entered into between the Vendors and the Purchaser, pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell the Sale Shares
“Great Talent”	Great Talent Technology Ltd. (高才科技有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries and the expression “ <b>member of the Group</b> ” means any one of them
“H Shares”	the overseas listed foreign invested shares 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\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	persons or companies which are independent of and not connected with any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries and their respective associates, and the term “ <b>Independent Third Party</b> ” shall be construed accordingly
“Latest Practicable Date”	9 April 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing Rules (Shenzhen)”	the Rules Governing Listing of Stocks on Shenzhen Stock Exchange*(深圳證券交易所股票上市規則)

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## DEFINITIONS

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<b>“Long Stop Date”</b>	90 days after the date of the Equity Transfer Agreement or such later date as the Parties may agree
<b>“Material Adverse Change”</b>	any incident, situation, effect or the happening of any incident or any state of any of them which has or is likely to have a material adverse effect on the assets, liabilities, businesses or financial position of the Group as a whole
<b>“Parties”</b>	the parties to the Equity Transfer Agreement
<b>“PRC”</b>	the People’s Republic of China and for the sole purpose of this circular shall exclude Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
<b>“Purchaser”</b>	江蘇安靠光熱發電系統科技有限公司(Jiangsu Ankura Solar Power System Technology Limited*), a company established in the PRC with limited liability and an Independent Third Party
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“Sale Shares”</b>	100% equity interests in the Target Company
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“Share(s)”</b>	A Share(s) and H Share(s)
<b>“Shareholder(s)”</b>	holder(s) of the Shares
<b>“Shenyang Kaiyi”</b>	Shenyang Kaiyi Electric Limited (瀋陽凱毅電氣有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Target Company”</b>	New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. (新東北電氣(錦州)電力電容器有限公司), a company established in the PRC with limited liability on 3 November 2003 and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
<b>“US\$”</b>	United States dollars, the lawful currency of the United States of America

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## DEFINITIONS

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<b>“Valuer”</b>	Shenzhen Pengxin Appraisal Limited* (深圳市鵬信資產評估土地房地產估價有限公司), a company established in the PRC with limited liability on 6 July 1998 holding the Asset Appraisal Licence* (資產評估資格證書) granted by Shenzhen National Assets Management Office* (深圳市國有資產管理辦公室) and Securities and Futures Business Appraisal Licence* (證券期貨相關業務評估資格證書) jointly granted by Ministry of Finance of the PRC and China Securities Regulatory Commission; and an Independent Third Party
<b>“Vendors”</b>	Shenyang Kaiyi and Great Talent
<b>“%”</b>	per cent.



# 東北電氣發展股份有限公司

**NEE** **NORTHEAST ELECTRIC DEVELOPMENT CO.,LTD.**

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

(Stock Code: 0042)

*Directors:*

Mr. Liu Daoqi  
Mr. Li Rui  
Mr. Bai Haibo  
Mr. Song Xiang  
Mr. Bao Zongbo  
Mr. Zhang Xiangsheng

*Registered Office:*

23/F, Building E, No. 9 East Taihu Road,  
Xinbei District, Changzhou City,  
Jiangsu Province, the PRC  
(Postcode: 213022)

*Independent non-executive Directors:*

Mr. Zhang Luyang  
Mr. Jin Wenhong  
Mr. Qian Fengsheng

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

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

*To Shareholders*

Dear Sirs or Madams,

**(1) MAJOR TRANSACTION IN RELATION TO DISPOSAL OF 100%  
EQUITY INTERESTS IN NEW NORTHEAST  
ELECTRIC (JINZHOU) POWER CAPACITORS CO., LTD.  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement, whereby it was announced that on 17 September 2017, the Vendors, wholly-owned subsidiaries of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the Consideration.

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## LETTER FROM THE BOARD

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The purpose of this circular is to give you further information regarding the Disposal which is reasonably necessary to enable you to make an informed decision as to whether to vote in favour of the resolution(s) proposed at the EGM.

### REQUIREMENTS UNDER THE LISTING RULES (SHENZHEN)

In accordance with the requirements under the Listing Rules (Shenzhen), the Company has prepared the following proposals in connection with the Equity Transfer Agreement:-

- (1) Proposal on Significant Asset Sale of the Company Complying with the Substantive Conditions Stipulated by Relevant Laws and Regulations\* (《關於公司本次重大資產出售交易符合相關法律法規規定的實質條件的議案》);
- (2) Proposal on the Scheme of the Significant Asset Sale of the Company\* (《關於公司重大資產出售交易方案的議案》) comprising:-
  - (a) Purchaser in the reorganisation\* (本次重組承讓方);
  - (b) Target assets\* (標的資產);
  - (c) Transaction price and pricing basis of target assets\* (標的資產交易價格和定價依據);
  - (d) Method of payment\* (支付方式);
  - (e) Arrangements for profits or losses during the transition period\* (過渡期間損益的安排);
  - (f) Debt settlement\* (債權債務處理);
  - (g) Deployment of employees and officers\* (員工及人員安排);
  - (h) Contractual obligations and default liabilities under the transfer of ownership of target company\* (標的公司辦理權屬轉移的合同義務和違約責任);
  - (i) Validity period of the resolutions\* (決議有效期);
- (3) Proposal on the Report for the Significant Asset Sale (Revision) and its Summary of Northeast Electric Development Co., Ltd.\* (《關於<東北電氣發展股份有限公司重大資產出售報告書(修訂稿)>及其摘要的議案》);
- (4) Proposal on Equity Transfer Agreement Entered into with the Purchaser (《與承讓方簽署的<股權轉讓協議>議案》).”
- (5) Proposal on Significant Asset Sale Complying with Article 4 of Provisions on Issues Concerning Regulating the Material Asset Reorganisation of Listed Companies\* (《關於本次重大資產出售交易符合<關於規範上市公司重大資產重組若干問題的規定>第四條規定的議案》);



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## LETTER FROM THE BOARD

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- (6) Proposal on Significant Asset Sale Not Constituting a Connected Transaction\* (《關於本次重大資產出售交易不構成關連交易的議案》);
- (7) Proposal on Significant Asset Sale Not Constituting a Reverse Takeover under Article 13 of Administrative Measures for Material Asset Reorganisation of Listed Companies\* (《關於本次重大資產出售交易不構成<上市公司重大資產重組管理辦法>第十三條規定的借殼上市的議案》); and
- (8) Proposal on Authorising the Board of Directors to Sign and Handle Relevant Matters of Equity Transfer Agreement with Absolute Discretion\* (《關於授權董事會簽署並全權辦理執行股權轉讓協議相關事項的議案》).

### THE EQUITY TRANSFER AGREEMENT

Set out below are the salient terms of the Equity Transfer Agreement:

#### Date

17 September 2017

#### Parties

Vendors : (1) Shenyang Kaiyi; and  
(2) Great Talent.

Purchaser : the Purchaser.

To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, the Purchaser is an Independent Third Party.

#### Consideration

The Consideration is RMB135,000,000 (equivalent to approximately HK\$148,500,000 and representing a premium of approximately 32.75% over the audited net asset value of approximately RMB101,696,199.69 (equivalent to approximately HK\$111,865,819.66) of the Sale Shares as at 31 July 2017), which shall be paid by cash by the Purchaser to the Vendors as follows:

<u>Name of the Vendors</u>	<u>% of Sale Shares to be sold (%)</u>	<u>Consideration to be received (RMB)</u>
Shenyang Kaiyi	66.34	89,563,100
Great Talent	33.66	45,436,900
<b>Total:</b>	<b>100.00</b>	<b>135,000,000</b>

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## LETTER FROM THE BOARD

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Payment of the Consideration shall be made by the Purchaser in the following manner:

- (1) 60% of the Consideration (equivalent to RMB81,000,000) to be paid within 5 days after the date on which all the Conditions Precedent are fulfilled;
- (2) 10% of the Consideration (equivalent to RMB13,500,000) to be paid within 5 Business Days after the date on which the relevant registration of business change is completed; and
- (3) the remaining 30% of the Consideration (equivalent to RMB40,500,000) to be paid before 31 October 2018.

The Consideration is determined after negotiations between the Parties with reference to the market value of the Sale Shares in the amount of RMB112,193,100 (equivalent to approximately HK\$123,412,410) as appraised in the Asset Assessment Report (a copy of which is exhibited as Appendix III to this circular) and determined by the Parties at a premium of 20.33% thereof with reference to the intangible assets of the Target Company. The intangible assets of the Target Company comprise registration of two trademarks and one patent in the PRC, related manufacturing technologies and processes, management experience, human resources, awards received on product quality, corporate reputation and industry recognition from supply of reliable, stable and high-quality power capacitors in key national power generation and transmission projects. The Target Company's trademark of "Xing Yue" (星月) is mainly used on the shunt capacitors (並聯電容器) and its complete appliance (成套裝置) whereas the trademark of "JZMC" is mainly used on the low-voltage metallised film capacitors (低壓金屬化電容器). The Target Company's patent named "special copper-aluminium transition cable clamp for electric capacitor units" (電力電容器組專用銅鋁過渡線夾) is used in the manufacturing procedure of 6,000 – 8,000 KVARH (Kilo Volt Amps Reactive Hours) shunt capacitors and its complete appliance and is a practical type of new patented technology.

Regarding the Target Company's intangible assets of trademarks and patent, the Valuer viewed that as the Target Company's operating income has continuously decreased significantly in recent years, the Target Company has sustained serious losses and business difficulties, and there was no sign of improvement as of the base date of assessment. The Directors estimated and the Valuer agreed that the total value of the two trademarks and patent owned by the Target Company is approximately RMB9.56 million based on profit-sharing approach (收益分成法), having regard to the (1) historic sales volume; (2) expected future earnings resulting from the synergy in terms of market competitiveness. However, as future earnings are difficult to predict objectively, the risks on the corresponding operations cannot be reasonably quantified and the value of the three intangible assets cannot be reflected in the operating income of the Target Company. Therefore, the Valuer did not assess them individually during the assessment. For further details as to the total value of the two trademarks and patent owned by the Target Company, please refer to Appendix IV to this circular.

As it is inappropriate to adopt the income approach nor the market approach to assess the assets of the Target Company, the assessment only adopted the asset-based approach. However, there are defects in the asset-based approach. From the view of assessment, all tangible and intangible assets which contribute to the revenue should be realised in the company's value. Due to limitations in accounting methods, the balance sheet on which the assessment relied could not completely and accurately reflect the off-balance sheet assets.

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## LETTER FROM THE BOARD

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Since the Purchaser is a supplier of power generation equipment and engages in power transmission business, and the Target Company is a major supplier of power capacitor in the power transmission and power generation equipment market, the Directors believe that the two companies have common customer base and are able to share each other's market resources in the power generation and transmission market.

Following the Completion, the businesses of the Target Company and the Purchaser will achieve a complementation and additive effect and create synergy in terms of market competitiveness. Based on its own resource conditions and the potential synergies upon the Completion, the Purchaser properly considered the investment value of the Target Company and offered a premium over the target asset's appraised value to reflect the market value of the intangible assets.

Having considered (1) the valuation method (which was in compliance with the Asset Appraisal Law of the PRC\* (中華人民共和國資產評估法), Basic Standard of the Standards for the Appraisal of Assets\* (資產評估準則—基本準則), and market practice adopted in the PRC) and results of valuation in the Asset Assessment Report; and (2) the premium between the Consideration and market value of the Sale Shares as appraised in the Asset Assessment Report which reflects intrinsic value of the intangible assets of the Target Company, the Directors consider that the Consideration is fair and reasonable and on normal commercial terms. For further details on the financial information of the Target Company, please refer to the section headed "Financial information of the Target Company".

### **Conditions precedent**

Completion of the Equity Transfer Agreement shall be conditional upon the fulfilment of all of the following conditions precedent before the Long Stop Date:

- (1) the passing of resolutions by each of the Board and Shareholders to approve any matters in relation to the transactions contemplated under the Equity Transfer Agreement;
- (2) the approval of the details of the transactions contemplated under the Equity Transfer Agreement by the Vendors;
- (3) the passing of resolutions by the shareholders of the Purchaser to approve the details of the transactions contemplated under the Equity Transfer Agreement;
- (4) the passing of resolutions by the board of directors of the Target Company to approve any matters in relation to the transactions contemplated under the Equity Transfer Agreement;
- (5) there being no material adverse non-operational impact to the business, operation, assets, debts, etc. since 31 July 2017, being the date of appraisal determination (save as to any changes derived from the matters disclosed by any party to the other party before signing of the Equity Transfer Agreement); and
- (6) the declaration, representation and undertaking made by the Parties under the Equity Transfer Agreement remaining valid and there being no material breach of the Equity Transfer Agreement or warranties made by the Parties.

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## LETTER FROM THE BOARD

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According to the negotiations between the Parties, the Long Stop Date has been extended to 30 June 2018 and may be further extended subject to Parties' agreement.

No Conditions Precedent may be waived by the Vendor nor the Purchaser. If any of such Conditions Precedent have not been fulfilled, which may cause the Equity Agreement to be void and unenforceable, none of the Parties shall have any claim against the other Parties. However, each Party shall continue to abide by the obligation to keep the confidential information of the other Parties acquired from the transactions under the Equity Transfer Agreement confidential.

As at the Latest Practicable Date, Conditions Precedent (2) to (6) have been fulfilled by the Parties.

### **Completion**

Completion shall take place in accordance with the relevant laws and regulations within 7 Business Days from the date on which 60% of the Consideration is received by the Vendors.

Immediately following the Disposal, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company, accordingly, the Target Company's financial results, assets, liabilities and cash flows will no longer be consolidated into the Company's consolidated financial statements.

### **INFORMATION OF THE COMPANY**

The principal activities of the Group prior to the Disposal are: (i) production and sales of power transmission equipment and related accessories; (ii) provision of relevant after-sale services; and (iii) provision of power transmission technology developing, consulting, transferring and testing services.

Enclosed busbar business

Following the Disposal, the production and sales of enclosed busbar (which are carried out by Fuxin Enclosed Busbar Co., Ltd. ("**Fuxin Busbar**"), an indirect wholly-owned subsidiary of the Company and incorporated in the PRC in May 1995 with registered capital of US\$8,500,000 which were owned as to 67% by Shenyang Kaiyi and 33% by Great Talent) will become the Group's only business in the power transmission industry in the short-run and the Group endeavours to convert this business into the Group's major business. As at the Latest Practicable Date, Fuxin Busbar has received sales orders with total value of approximately RMB58 million. Upon the operation of the new plant under the relocation plan as announced in the Company's announcement dated 25 January 2016, the new plant will integrate scientific research, production, sales and service in the same development and will elevate the production technological level from a level originated in the 1980s to a national leading one which will help maintaining the Group's leading position in the industry. As a result, the new plant will enhance the Group's overall competitiveness and boost the number of sales orders under the enclosed busbar business.

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## LETTER FROM THE BOARD

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In light of the above, it is expected that the Group's production of enclosed busbar will be up- surfing due to the increased production capacity of enclosed busbar from 20 units to more than 30 units (equivalent to annual production volume of a 20 million kWatt) with corresponding production capacity increased from RMB80 million to RMB120 million. As at the Latest Practicable Date, the construction works of the new plant and other ancillary facilities had been completed and installation and testing of relevant machineries are being carried out progressively. It is expected that the new plant will be in full operation in the first half of 2018.

In addition, the Group intends to adjust its product mix under the enclosed busbar business so as to align with the growth in demands for enclosed busbars products relating to power generation using natural gas and small-scale offshore nuclear power plant. The Company will also strengthen its cooperation with complete plant export corporations so as to enter into the international market and diversify its customer base. To cope with the technological advancement in power generation, the Board intends to enhance quality control of its products and develop new products. Technology on forced air cooling device for nuclear power plants (核電用強迫風冷裝置技術) has been successfully developed by the Group to meet users' demand of enclosed busbars for small offshore nuclear reactor projects. Currently, the Group is developing the shaded bin of phase modifier (調相機罩箱) capable of being matched with a generator, and will develop isolated-cast busbars (絕緣澆鑄母線), high-voltage isolated duct busbars (高壓絕緣管道母線) and other busbars that are damp proof, salt and spray proof, and anti-seismic. The Company will continue to strengthen its technology management and advancement by (1) enhancing quality control of its products; (2) fully utilise its nuclear power enclosed busbar access network licence and its results in large-scale hydropower operation to obtain more sales orders of green energy product; and (3) devoting to new product development with an aim to increase the sales order of new products.

In light of the above developments, the Board considers that the performance of the enclosed busbar business will continue to prove and be a sustainable business.

### Photovoltaic power generation related business

The Group is also expanding its existing photovoltaic power generation-related business (which is being carried out by its non-wholly owned subsidiary, Northeast Electric (Chengdu) Electric Power Engineering Design Co., Ltd. ("**Chengdu Electric**"), which was acquired by the Group as to 51% equity interests in December 2016) intending it to become one of the principal operations of the Group in the future. Chengdu Electric is qualified to engage in the construction works such as engineering design, safe production, and engineering investigation. As at the Latest Practicable Date, Chengdu Electric has construction capacity of 30MW photovoltaic power stations (productivity equivalent to RMB150 million). It is intended that Chengdu Electric will participate in the construction of photovoltaic power station by way of "engineering, procurement, and construction" ("**EPC**") model, whereby EPC contractors commissioned by the owner to be responsible for the whole process or several stages of the design, procurement, construction and commissioning of the engineering construction project in accordance with the contract and are generally responsible for the quality, safety, expense and progress of the contracted works under the terms of a lump sum contract. According to the market norm of the photovoltaic power plant construction industry, each EPC project has an average construction and recovery cycle of about 5 months.

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## LETTER FROM THE BOARD

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Chengdu Electric will enter into construction contracts with owners of power plant projects. Chengdu Electric, as an EPC contractor, will be responsible for the whole process or several stages of the design, procurement, construction and commissioning of the engineering construction project in accordance with the relevant contract before transferring the project to the owner. As at the Latest Practicable Date, Chengdu Electric has signed three EPC agreements with total contractual amount of approximately RMB96 million. Details of the three EPC agreements are summarised in the table below:

	<b>Agreement 1</b>	<b>Agreement 2</b>	<b>Agreement 3</b>
<b>Date of agreement</b>	October 2017	November 2017	October 2017
<b>Contractual value</b>	RMB6 million	RMB75 million	RMB14.95 million
<b>Location of site</b>	Changzhou, Jiangsu Province, PRC	Nanyang, Henan Province, PRC	Changzhou, Jiangsu Province, PRC
<b>Production capacity (megawatt) (“MW”)</b>	1MW	150MW	2.3MW

According to the 13th Five-Year Development Plan announced by the National Energy Administration in PRC for the photovoltaic industry, by the end of 2020, the total installed capacity of solar power will exceed 110 million kilowatts, of which more than 105 million kilowatts will be generated by photovoltaic devices; the scale will grow steadily every year on the basis of the 12th Five-Year Development Plan. The total installed capacity of solar thermal power will reach 5 million kilowatts, and the collector area of solar power utilisation will reach 800 million square meters. By 2020, the annual utilisation of solar power will exceed 140 million tons of standard coal. At present, China’s downstream demand remains high, and the prices of photovoltaic components are dropping while their gross profits are rebounding. The internal rate of return of downstream photovoltaic power stations stays high, and the future prosperity of the entire industry chain is likely to maintain at a relatively high level. This strategic plan indicates that there is huge space for growth in the Chinese photovoltaic power generation industry.

New business – development of property leasing business

As announced in the Company’s announcement dated 17 September 2017, Shanghai Kaixin entered into a letter of intent for the acquisition of certain properties in Guangzhou. If the proposed acquisition of properties materialises, the Group proposes to lease out the properties in order to receive stable rental income so as to increase the Group’s overall income.

As at the Latest Practicable Date, parties to the proposed acquisition are still negotiating the terms of the formal agreement and the proposed acquisition may or may not proceed.

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## LETTER FROM THE BOARD

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New business – development of upstream and downstream businesses in hotel industry

*“Hotel Intelligent Communication Services”*

To capture the market demand for intelligent hotel management service in the hotel industry, Shanghai Kaixin has entered into an agreement in October 2017 with HNA Hotel Holding Group Co., Ltd. (“**HNA Hotel**”), an associated company of the Group’s substantial shareholder (please refer to the notes to the table under “3. Substantial shareholders and other persons’ interests and short positions” in Appendix II to this circular for further details of the Group’s relationship with HNA Hotel), for the provision of necessary smart cards and online services for the comprehensive upgrade of hotels. At the initial stage, it is expected that intelligent management system will be introduced to all rooms in hotels. Through various sensing devices installed in hotel rooms and public area, the smart phones and screens in hotel rooms will become a channel to room service and hotel management which allows automatic check-in and smart control of locks, curtains, televisions, thereby achieving intelligent hotel management and enhance value-added services of hotels.

As at the Latest Practicable Date, the Board is preparing the detailed implementation plan for this business.

*“Travelling Product Mix of Ticket + Hotel” online marketing*

In light of the different demands for business or economy class tickets from business customers, the Company has confirmed to launch a “Travelling Product Mix of Ticket + Hotel” online marketing business so as to capture the upstream and downstream business within the hospitality industry. Shanghai Kaixin has already signed strategic cooperation agreements with HNA Airlines Sales Co., Ltd. (海南海航航空銷售有限公司) and HNA Hotel Holding Group Co., Ltd. (海航酒店控股集團有限公司) separately to procure the right for selling the inventory tickets and inventory hotel rooms. Shanghai Kaixin has also entered into a letter of intent with Nanjing Tuniu International Travel Service Co., Ltd. (南京途牛國際旅行社有限公司) (“**Nanjing Tuniu**”), an online ticket service company, for establishing an online platform to conduct the said marketing business. As at the Latest Practicable Date, Nanjing Tuniu is indirectly owned as to 24% by HNA Group Co. Ltd. (“**HNA Group**”) through Tuniu Corporation, a company registered in the Cayman Islands and listed on the Nasdaq Stock Market in the United States of America. Please refer to the notes to the table under “3. Substantial shareholders and other persons’ interests and short positions” in Appendix II to this circular for further details of the Group’s relationship with HNA Group.

In October 2017, Shanghai Kaixin entered into three framework agreements with HNA Hotel Holding Group Co., Ltd. (海航酒店控股集團有限公司) and HNA Hotel Holding Group Co., Ltd. (海航酒店控股集團有限公司) respectively, for the potential provision of necessary smart cards and online services for the upgrade of intelligently-managed hotels and the potential right for selling inventory hotel rooms.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the framework agreements are yet to be effective pending approval by the Company. The Board is preparing the detailed implementation plan for this business. The Company will comply with the requirements under Listing Rules as the new business proceeds and seeks Shareholders' approval for implementing the new business plans.

As set out above, following the Disposal, the Group's principal businesses will include (1) production and sales of enclosed busbar; and (2) photovoltaic power generation and related services. A summary of the details of the Directors or senior management who will be involved in the Group's busbar and photovoltaic businesses are set out in Appendix II to this circular. Save as disclosed in this circular, the Board has no intention and has not entered into any arrangement, understanding or undertaking to (i) acquire any new business; and (ii) dispose of or downsize the Company's existing businesses and/or its major operating assets.

### INFORMATION OF THE PURCHASER

As at the date of this circular, the Purchaser is a company established in the PRC on 4 November 2011 with limited liability. The Purchaser's scope of business includes research and development, production and sales of the solar thermal power system of heat gain, heat transfer, heat storage and heat transport and related products and the design, implementation of the entire solar thermal system and energy storage and overall technical service. The Purchaser is preparing to engage in the development of new clean energy and manufacturing of power generation equipment.

The Purchaser is beneficially owned as to 70% by Mr. Chen Xiaoling (陈晓凌) and 30% by Mr. Chen Xiaohui (陈晓晖). To the best of the Directors' knowledge, information, and belief, having made all reasonable enquiries, each of the Purchaser and its ultimate shareholder does not have any relationship with any director, senior management, and connected persons (including substantial shareholders) of the Company.

The Purchaser is a company based in Liyang, Changzhou City, Jiangsu Province. Since the Company's relocation of its headquarters to Changzhou, Jiangsu Province, the senior management have been in regular contact on potential cooperation between the Company and the Purchaser. The Purchaser learned about the Company's intention to dispose of the Target Company in summer 2017 and the Parties started former negotiations about the Disposal in August 2017, which led to the signing of the Equity Transfer Agreement in September 2017.



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## LETTER FROM THE BOARD

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### INFORMATION OF THE TARGET COMPANY

The Target Company was established in the PRC on 3 November 2003 with registered capital of US\$15.45 million. As at the date of this circular, the Target Company is wholly owned by the Company through the Vendors. The Target Company owns 69.75% equity interests in Jinzhou Jinrong Electric Co., Ltd. (錦州錦容電器有限責任公司) which is a company established in the PRC with limited liability. The principal activities of the Target Company are production and sale of power capacitors, including high voltage shunt capacitors, dry self-healing high voltage shunt capacitors, high and low voltage parallel condenser compensation devices, filter capacitors, capacitive voltage transformers, high-voltage oil-immersed power capacitors and low-voltage film capacitors. The key assets held by the Target Company includes two real properties, over 330 pieces of production machineries (e.g. conveyors, hydraulic plate bending machines, winding machines, vacuum impregnation units, splitting machines, etc.), over 270 pieces of electronic appliances (e.g. computers, air-conditioners, dust particle counters, oil testers, peak current detectors, etc.), 4 general transport vehicles and 1 forklift. The registered capital of the Target Company is US\$15,450,000. Upon Completion, the Target Company will cease to be a subsidiary of the Company.

#### *Operation history*

Due to the structural adjustment on macro-economic policies made by the Chinese government in recent years and overcapacity of the power industry, the total demand for power capacitors and product prices continued to decline. Many companies adjusted their order structure to reduce operational pressure. This results in the decrease of the sales order received by the Target Company and the significant cumulative losses bring serious difficulties in production and operation. In recent years, the industry in which the Target Company operates has shown overcapacity and fierce price competitions, causing a downward trend in the Target Company's profit. In 2016, the Target Company recorded sales revenue of RMB29.09 million, an output value of RMB23.62 million and a sales volume of 2.04 million kvar. In 2017, it recorded sales revenue of RMB3.09 million, an output value of RMB3.50 million, and a sales volume of 300,000 kvar. For further details, please refer to the section headed "Financial information of the Target Company".

### FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the financial information of the Target Company:

	For the year ended 31 December		
	2015 (audited) (RMB)	2016 (audited) (RMB)	2017 (audited) (RMB)
Net profit/(loss) for the period before taxation	6,987,328.21	(36,145,147.77)	(43,852,224.72)
Net profit/(loss) for the period after taxation	5,110,697.84	(43,101,850.43)	(43,852,224.72)

The audited consolidated net asset value and audited consolidated total asset value of the Sale Shares as at 31 July 2017 were approximately RMB101,696,199.69 and approximately RMB138,271,232.85, respectively, equivalent to approximately HK\$111,865,819.66 and HK\$152,098,356.14, respectively.

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## LETTER FROM THE BOARD

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As at 31 December 2017, the audited consolidated net asset value and audited consolidated total asset value of the Sale Shares were approximately RMB80,661,953.72 and approximately RMB120,833,583.16, respectively, equivalent to approximately HK\$88,728,149.09 and HK\$132,916,941.48, respectively.

### REASONS FOR AND BENEFITS OF THE DISPOSAL

As shown in the paragraph headed “Financial information of the Target Company” in each of this circular and the Announcement, the Target Company incurred significant loss from operations in the financial years ended 31 December 2015, 2016 and 2017 and is thus expected to make provisions for bad debts, drop in stock, asset impairment, etc. The drop in revenue from the production of power capacitors was caused by: (1) fierce market competition as a result of surplus production capacity in the power transmission facilities production industry in the PRC; (2) fierce market competition causing the drop in sales price of the Group’s products and income; and (3) the PRC supply-side reform in 2015 (which aimed at reducing excessive industrial capacity) causing significant drop in demand from the Group’s customers in industries such as metallurgy, coal, and chemical engineering (which had become the Group’s focused customers since 2012 in light of then market trend).

The Board considers that the downward trend of operating income and gross profit margin for the segment of power capacitor has made the Target Company a trivial component of the Group’s overall business and the Disposal will not significantly affect the Group’s operations. The Disposal will provide a good opportunity for the Company to exit from the loss-making business and to realise the Target Company’s intrinsic value for re-investment in other profitable business. The Disposal will also enhance the Group’s focus on other core business segments with faster return and improve the viability, sustainability, liquidity and overall financial position of the Group. Please refer to the section headed “Information of the Company” for further details on the other business segments to which the Board intends to expand.

Accordingly, the Board is of the view that the Disposal is fair and reasonable and on normal commercial terms and entering into the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

### FINANCIAL IMPACT OF THE DISPOSAL ON THE GROUP

Immediately following the Disposal, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company, accordingly, the Target Company’s financial results, assets, liabilities and cash flows will no longer be consolidated into the Company’s consolidated financial statements.

Based on the audited consolidated financial statement of the Group for the year ended 31 December 2016, assuming Completion took place on 31 December 2016, it is estimated that, as a result of the Disposal, the consolidated total assets of the Group would have decreased by approximately RMB7,275,268.91 (equivalent to HK\$8,002,795.80) and the consolidated total liabilities of the Group would have decreased by approximately RMB24,662,239.14 (equivalent to HK\$27,128,463.05).

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## LETTER FROM THE BOARD

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It is expected that the Group will recognise a gain in its consolidated income statement of approximately RMB33,303,800, equivalent to approximately HK\$36,634,180, arising from the Disposal, which is calculated by reference to the audited consolidated net asset value of the Sale Shares of RMB101,696,199.69 (equivalent to HK\$111,865,819.66) in the audited consolidated accounts of the Target Company for the seven months ended 31 July 2018 and the Consideration. The actual amount of gain arising from the Disposal to be recognised by the Group will be subject to final audit by the Company's auditors.

### USE OF PROCEEDS

The gross and net proceeds from the Disposal will be approximately RMB135,000,000 and RMB104,800,000 respectively. The amount of net proceeds has taken into account (1) losses incurred by the Target Company prior to the Completion (which shall be borne by the Vendors pursuant to the terms of the Equity Transfer Agreement) in the sum of approximately RMB27.5 million (assuming that the Completion will take place by the end of April 2018) and (2) fees for engagement of intermediaries in connection with the Disposal in the sum of approximately RMB2,800,000.

The Directors expect that the proceeds from the Disposal after deducting the expenses directly attributable thereto will be used for financing the expansion of the Group's existing businesses, development of new businesses, and general working capital of the Group:

- (1) RMB10,000,000 will be allocated to Shanghai Kaixin by July 2018 for development of its new businesses, of which approximately RMB7,000,000 will be used for purchasing mobile handsets for the intended hotel intelligent communication services and RMB3,000,000 will be reserved for general operation of the new businesses;
- (2) RMB50,000,000 will be allocated to Chengdu Electric for expansion of its photovoltaic business under EPC model after obtaining Shareholders' approval in the next annual general meeting to be held in April 2018. It is expected that approximately RMB3,200,000 will be used as operating expenses such as employees' salaries and marketing expenses. The remaining sum of approximately RMB46,800,000 will be reserved as liquidity capital for EPC projects during the construction process such as purchase of raw materials; and
- (3) remaining net proceeds in the sum of approximately RMB44,800,000 will be used for general working capital of the Group for supporting the Group's enclosed busbar business and developing the upstream and downstream businesses in hotel industry. It is estimated that:-
  - (a) approximately RMB16,000,000 will be used for fulfilling the daily operation of the Company;
  - (b) approximately RMB5,000,000 will be used for research and development of new products under the enclosed busbar business;

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## LETTER FROM THE BOARD

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- (c) approximately RMB11,000,000 will be used for general working capital of the enclosed busbar business;
- (d) approximately RMB5,000,000 will be used for fulfilling the daily operation of the new businesses in upstream and downstream businesses in hotel industry comprising the “*Hotel Intelligent Communication Services*” and “*Travelling Product Mix of Ticket + Hotel*” online marketing services; and
- (e) approximately RMB8,000,000 will be used for fulfilling the daily operation of the Target Company until the Completion.

Further details of the Company’s existing and new businesses are set out in the section headed “Information of the Company” in this circular.

### EGM

The EGM will be held for the purpose of approving, among other things, the Equity Transfer Agreement and the transactions contemplated thereunder.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders or any of their associates have any material interests in the Disposal. Accordingly, no Shareholders are required to abstain from voting on the ordinary resolutions to be approved at the EGM.

The notice of EGM to be held at 10:00 a.m. on 25 May 2018 (Friday) at the Conference Room, Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC, is set out on pages EGM-1 to EGM-3 of this circular. At the EGM, ordinary resolutions will be proposed for the holders of A Shares and H Shares to approve the Disposal.

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 registered office at Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC (for holders of A Shares), or the Company’s H Share registrar, Hong Kong Boardroom Share Registrars (HK) Limited, at 2103B, 21th 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.

### PROCEDURES BY WHICH A POLL WILL BE DEMANDED

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure the chairman of the EGM to demand for voting on poll in respect of the ordinary resolutions to be proposed at the EGM and Ruihua Certified Public Accountants (瑞華會計師事務所) will serve as the scrutineer for the vote-taking.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Directors consider that the terms of the Equity Transfer Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Disposal.

### ADDITIONAL INFORMATION

Your attention is also drawn to the financial information and general information of the Group set out in the appendices to this circular.

The Disposal is the Company's 2nd attempt to dispose of the Sale Shares. The 1st attempt to dispose of the Sale Shares (the "**Previous Disposal Plan**") was made in April 2016 and constituted a "very substantial disposal" under the Listing Rules. However, the Previous Disposal Plan was not completed because the Company could not have a sufficient level of operation or assets of sufficient value to warrant a continuing listing upon completion pursuant to Rule 13.24 of the Listing Rules. For further details of the Previous Disposal Plan, please refer to the Company's announcements dated 29 April 2016 and 10 May 2016, respectively.

By order of the Board  
**Northeast Electric Development Co., Ltd.**  
**Liu Daoqi**  
*Chairman*

Changzhou, Jiangsu Province, the People's Republic of China  
10 April 2018

*For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.1. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.*

*As at the date of this circular, the Board comprises of six executive Directors, namely, Mr. Liu Daoqi, Mr. Li Rui, Mr. Bai Haibo, Mr. Song Xiang, Mr. Bao Zongbo and Mr. Zhang Xiangsheng and three independent non-executive Directors, namely, Mr. Zhang Luyang, Mr. Jin Wenhong and Mr. Qian Fengsheng.*

\* *For identification purposes only.*

**1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated financial statements of the Group for the years ended 31 December 2014, 2015 and 2016 are disclosed in the Company's 2014 annual report dated 16 March 2015 (page 68 to 199), 2015 annual report dated 19 February 2016 (page 64 to 193), 2016 annual report dated 27 March 2017 (page 79 to 217), respectively. The aforesaid annual reports can be accessed on the website of the Company ([www.nee.com.cn](http://www.nee.com.cn)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

The Company's 2014 annual report is available on  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0402/LTN20150402727.pdf>

The Company's 2015 annual report is available on  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0314/LTN20160314223.pdf>

The Company's 2016 annual report is available on  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0413/LTN20170413441.pdf>

The Company's 2017 interim report is available on  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0906/LTN20170906861.pdf>

The Company's announcement of its audited results for the year ended 31 December 2017 is available on  
<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0329/LTN201803292517.pdf>

## 2. INDEBTEDNESS

### **Borrowings**

At the close of business on 9 April 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group did not have any bank borrowings.

### **Estimated liabilities – guarantees provided by the Company**

The Company has provided guarantee for the bank loan of RMB13,000,000 between Bank of China Jinzhou Branch and Jinzhou Jinrong Electric Co. Ltd., a non-wholly-owned subsidiary of the Target Company. Bank of China Jinzhou Branch has filed a lawsuit in February 2005 to the District Court of Jinzhou Municipality, Liaoning Province, claiming against Jinzhou Jinrong Electric Co. Ltd for repayment of the aforementioned loan principal and the relative interests, along with the request that the Company shall undertake joint obligation of repayment. The District Court has ruled in May 2005 that the Company should undertake the joint obligation of repayment of the aforementioned loan principal and interests. The Company has not launched an appeal and the ruling has been effective. Intermediate Court of Liaoning Province Jinzhou Municipality has issued Enforcement Notice No. (2005) Jin Zhi Zi Di 89 in September 2005 and has made Enforcement Ruling No. (2005) Jin Zhi Yi Zi Di 89 on 23 June 2010, confiscating high-voltage parallel connection capacitors owned by Jinzhou Jinrong Electric Co. Ltd, including 35 boxes of 140 sets of BFM6.61-299IW, 24 boxes totalling 96 sets of BFM2.11.5J3-300IW, 65 boxes of 240 sets of BFM3.11.5J3-300IW. The Company has an estimated liability of RMB14,464,500 (equivalent to approximately HK\$15,910,950) in relation thereto and has not paid the same as at the Latest Practicable Date.

The Company has provided guarantee for loans of RMB17,000,000 between Jinzhou City Commercial Bank and the Target Company. Jinzhou City Commercial Bank has commenced lawsuit to the Intermediate Court of Jinzhou Municipality against the Target Company for repayment of principal of RMB17,000,000, the relative interest of RMB2,890,000 and for the Company to assume joint liability. The court ruled that the Company shall assume joint liability for repaying RMB17,000,000 and relative interests of RMB2,890,000 by Ruling no. (2007) Jin Min San Chu Zi Di 00049 in June 2007, which has become effective. The Company has not launched any appeal. The Intermediary Court of Jinzhou Municipality issued an Order of Enforcement to the Company on 5 March 2008, requesting performance of obligations by the Company. The Company has an estimate liability of RMB19,890,000 (equivalent to approximately HK\$21,879,000) in relation thereto and has not paid the same as at Latest Practicable Dates.

The Company provided guarantee and assumed joint liability for loans of RMB22,900,000 from ICBC Jinzhou City Sub-branch to the Target Company, the loan agreement amount of which is RMB42,900,000. ICBC Jinzhou City Sub-branch claimed against the Target Company in December 2006 at the Intermediate Court of Jinzhou Municipality for repayment of loan principal of RMB22,900,000 and relative interest of RMB3,466,578.25 and for the Company to assume joint liability. The Court has by Ruling No. (2007) Jin Min San Chu Zi 00019 ruled that the Company should take up joint obligation to repay the loan principal of RMB22,900,000 and the loan interest of RMB3,466,578.25. On 25 August 2010, the Intermediate Court of Jinzhou Municipality issued Execution Notice (2008) Jin Zhi Yi Zi No. 67 to confiscated the 10% equity interest in Shenyang Kaiyi Electric Co., Ltd. held by the Company. The Company has an estimated liability of RMB26,366,578.25 (equivalent to approximately HK\$29,003,236.06) in relation thereto and has not paid the same as at the Latest Practicable Date.

Accordingly, the Company has provided guarantee in the amount totalling RMB52,900,000 (equivalent to approximately HK\$58,190,000) for loans of the Target Company and its subsidiary and the total estimated liabilities thereunder amount to RMB 60,721,078.25 (equivalent to approximately HK\$66,793,186.08).

#### **Estimated liabilities – pending lawsuit**

During the year ended 2017, the Company recognised estimated liabilities of RMB37,745,190 for the pending lawsuits involving employee resettlement fees. According to the announcement issued by the Company on 7 July 2017, Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau (瀋陽市鐵西區國有資產監督管理局) brought a lawsuit to Liaoning Shenyang Municipal Intermediate People's Court against the Company, Shenyang High Voltage Switchgear Co., Ltd. ("**Shenyang High Voltage**") and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd., requiring that the defendants repay all the arrears of RMB28.53 million, interest of RMB7,788,690 and liquidated damages of RMB1,426,500, totaling RMB37,745,190, to the plaintiff regarding the dispute on Shenyang High Voltage's employee resettlement fees. The case is still in the process of trial, and the court has not yet rendered a judgment. Based on the principle of financial prudence, the Company has recognised estimated liabilities of RMB37,745,190 for the remaining employee resettlement fees and related expenses of Shenyang High Voltage.

Save as disclosed above and apart from intra-group liabilities, the Group does not have any outstanding mortgages, charges, debt securities, term loans, overdrafts, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the Latest Practicable Date.

### **3. WORKING CAPITAL SUFFICIENCY**

The Directors are of the opinion that, after taking into account the internal resources, the existing available banking and other facilities of the Group and the net proceeds from the Disposal, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.



**4. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any Material Adverse Change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

**5. FINANCIAL AND TRADING PROSPECTS**

Upon completion, the Group will cease to have any interests in the Target Company, which principally engaged in production and processing of power capacitors, and cease to be involved in the competitive power capacitors industry. Meanwhile, the Group will continue its operations in the production and sales of enclosed busbars and photovoltaic power generation-related business. The Directors believe that the Disposal provides a good opportunity for the Company to exit from the loss-making business and to realise the Target Company's intrinsic value for re-investment in other profitable business. The Disposal will also enhance the Group's focus on other core business segments with faster return and improve the liquidity and overall financial position of the Group. For details of the Group's existing and potential businesses after the Disposal, please refer to the section headed "Information of the Company" in this circular.

## 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. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company has an interest or short position in any shares, underlying shares and debentures of the Company or any associated corporation (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 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.

## 3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

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	Nature of Shareholder	Number of Shares held	Approximate percentage in the Company's share capital
Beijing Haihongyuan Investment Management Co., Ltd <sup>(Note 1)</sup>	Domestic non- state-owned legal person	81,494,850 A Shares	9.33%
HNA Hotel Group (Hong Kong) Company Limited <sup>(Note 2)</sup>	Foreign legal person	155,830,000 H Shares	15.14%

Notes:

1. *To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, such Shares are held by Beijing Haihongyuan Investment Management Co., Ltd, which is owned as to 100% by 海航旅遊集團有限公司 (HNA Tourism Group Limited), which in turn is owned as to 69.96% by HNA Group Co. Ltd. ("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). Upon completion, HNA Group will indirectly hold 7.92% of our issued Shares as A Shares and 15.14% of our issued Shares as H Shares.*
2. *To the best knowledge of the Directors and assuming the subscription shares are issued by the Company pursuant to the subscription agreement dated 5 April 2017 entered into between the Company and HNA Hotel Group (Hong Kong) Company Limited, such Shares will be held by HNA Hotel Group (Hong Kong) Company Limited, which is wholly owned by 海南國商酒店管理有限公司 (HNA Guoshang Hotel Management Company Limited), which in turn is owned as to 76.92% by 海航酒店控股集團有限公司 (HNA Hotels Holding Group Limited), which in turn is owned as to 86.73% by Beijing Haihongyuan Investment Management Co., Ltd., which in turn is owned as to 100% by 海航旅遊集團有限公司 (HNA Tourism Group Limited), 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 agreement dated 5 April 2017 is still being reviewed by the China Securities Regulatory Commission ("CSRC") and thus the transaction has not yet completed. Relevant documents required by the CSRC has been submitted on 12 February 2018 by the Company.*

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 5% 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.

#### 4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

## 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service agreement between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 6. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group, nor had any direct or indirect interest in any assets which have been acquired or disposed of, by or leased to any member of the Group or are proposed to be acquired or disposed of, by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Group were made up.

## 7. LITIGATION AND ARBITRATION MATTERS

Reference is made to the announcement dated 7 July 2017 made by the Company.

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

A claim for an outstanding rental payment of RMB4,200,000 (equivalent to approximately HK\$4,620,000) was brought by Liaoning Li Meng State-owned Asset Operation Limited\* (遼寧利盟國有資產經營有限公司) against the Target Company. On 17 November 2014, the Intermediate People's Court of Shenyang Municipality, Liaoning Province issued an Order of Enforcement (2014) Shen Zhong Zhi Cai Zi No.80, which was further confirmed by the Ruling (2015) Shen Zhong Zhi Cai Zi No.3, pursuant to which the Target Company was held liable for the amount claimed and the Company shall bear the judgement debt thereunder. The Company has launched an appeal to the Higher People's Court of Liaoning Province against the judgement thereof. As at the Latest Practicable Date, the hearing is still in progress, the Directors, based on the advice from legal counsel, believe that the Company has a valid defence against the claim and consider that the ultimate outcome of such litigation is not likely to have a material adverse effect on the financial position of the Group.

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\$145.63 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\$31.38 million) under the Agreements, interest of RMB7,788,690 (equivalent to approximately HK\$8,567,559) and liquidated damages of RMB1,426,500 (equivalent to approximately HK\$1,569,150), totalling RMB37,745,190 (equivalent to approximately HK\$41,519,709) resulting from the alleged breach of the Agreements. As at the Latest Practicable Date, the hearing of the above case has not been held and the impacts thereof on the current and future profits of the Company are yet to be determined.

Save as disclosed above, as at the Latest Practicable Date, there is not any other litigation or claims of material importance pending or threatened against the Group.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the Company or any of its subsidiaries within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) share transfer and changes in substantial shareholders and de facto controller:
  - 1. On 23 January 2017, Suzhou Tsing Chuang (transferor), a substantial shareholder of the Company, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with Beijing Haihongyuan (transferee) for the transfer of 81,494,850 A Shares held by Suzhou Tsing Chuang, at an aggregate consideration of RMB1.3 billion and RMB15.95 per A Share. Immediately after the completion of the Sale and Purchase Agreement, Suzhou Tsing Chuang ceased to be a substantial shareholder of the Company;
- (b) the subscription agreement dated 2 January 2017 entered into between the Company and the HNA Hotel Group (Hong Kong) Company Limited (海航酒店集團(香港)有限公司) (“**HNA Hotel Group (Hong Kong)**”), a company incorporated in Hong Kong with limited liability, in respect of the subscription of 136,170,212 new H Shares to be issued by the Company at HK\$2.35 per H Share, which was not approved by the requisite majority in the extraordinary general meeting and A Shares Shareholders’ class meeting held on 6 March 2017;

- (c) the subscription agreement dated 5 April 2017 entered into between the Company and HNA Hotel Group (Hong Kong) in respect of the subscription of a total of 155,830,000 H Shares issued by the Company at HK\$ 2.40 per H Share which was approved by the requisite majority in the extraordinary general meeting, A Shares Shareholders' class meeting and H Shares Shareholders' class meeting held on 5 June 2017;
- (d) the Equity Transfer Agreement;
- (e) the non-legally binding Letter of Intent dated 17 September 2017 entered into between Shanghai Kaixin and 廣州鼎尚股份有限公司(Guangzhou Dingshang Company Limited\*) in respect of the proposed acquisition of certain properties situated in Guangzhou, the PRC by Shanghai Kaixin from 廣州鼎尚股份有限公司(Guangzhou Dingshang Company Limited\*);
- (f) the Mobile Phone Rental Agreement (手機租賃合同) dated 10 October 2017 entered into between Shanghai Kaixin and HNA Hotel Holding Group Co., Ltd. (海航酒店控股集團有限公司) in respect of the potential provision of necessary smart cards and online services for the upgrade of intelligently- managed hotels;
- (g) the Strategic Cooperation Agreement (戰略合作協議書) dated 16 October 2017 entered into between Shanghai Kaixin and HNA Hotel Holding Group Co., Ltd. (海航酒店控股集團有限公司) in respect of the potential right for selling inventory hotel rooms;
- (h) the Strategic Cooperation Agreement (戰略合作協議書) dated 16 October 2017 entered into between Shanghai Kaixin and HNA Airlines Sales Co., Ltd. (海南海航航空銷售有限公司) in respect of the right for selling inventory air tickets; and
- (i) the HNA Group Finance Co., Ltd. Finance Service Agreement (海航集團財務有限公司金融服務協議) dated 20 December 2017 entered into between the Company and HNA Group Finance Co., Ltd. in respect of provision of credit service (please refer to the Company's announcement dated 20 December 2017 for further details of this agreement).

**9. GENERAL INFORMATION**

- (a) The registered office of the Company is located at 23/F, Building E, No. 9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC (Postcode: 213022).
- (b) The principal place of business of the Company in Hong Kong is located at 17/F., Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong
- (c) The transfer office of the Company in Hong Kong is Boardroom Share Registrars (HK) Limited at 2103B, 21th Floor, 148 Electric Road, North Point, Hong Kong.

- (d) 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 15-year working experience in accounting, taxation, and audit and company secretary.
- (e) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

## 10. EXPERTS AND CONSENTS

The qualification of the expert who has given opinions and advice in this circular is as follow:

Name	Qualification
Shenzhen Pengxin Appraisal Limited* (深圳市鵬信資產評估土地房地產估價有限公司)	Independent valuer

As at the Latest Practicable Date, the Valuer has no shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Group.

The Valuer has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, and/or references to its name, in the form and context in which they respectively appear.

## 11. SUMMARY OF DETAILS OF THE DIRECTORS OR SENIOR MANAGEMENT WHO WILL BE INVOLVED IN THE GROUP'S BUSBAR AND PHOTOVOLTAIC BUSINESS

### *Busbar business*

**Mr. Su Weiguo (蘇偉國) ("Mr. Su")**, born in 1962, senior economist, graduated from Harbin University of Science and Technology with a bachelor degree in engineering in heat treatment and later from Dalian Maritime University with a master degree in laws in international economics law. Mr. Su has more than 30 years of management experience in energy and electric engineering industry. He is currently the vice general manager and board

**Mr. Yuan Limin (袁利民) ("Mr. Yuan")**, born in 1964, senior economist. He successively majored in business administration and accounting at Shenyang University of Technology. Mr. Yuan has over 30 years of experience in the electric industry and has participated in various power plant construction projects in PRC. He is currently the general manager of Fuxin Enclosed Busbar Co., Ltd.

**Mr. Qiu Yongjian (仇永健) (“Mr. Qiu”), born in 1964**, born in 1964, senior engineer, graduated from Shenyang University of Technology with a bachelor degree in high-voltage electrical apparatus. Mr. Qiu has more than 30 years of experience in the busbar industry and has participated in various power plant construction projects in PRC. He is currently one of the Company’s supervisor.

**Mr. Jin Zhihui (金志會) (“Mr. Jin”), born in 1964**, born in 1964, senior engineer. He graduated from the management engineering department of Fuxin Mining Institute in 1987. Mr. Jin has been engaged in the design, manufacture and marketing management of enclosed busbars for more than 30 years. He is currently the director and vice general manager of Fuxin Enclosed Busbar Co., Ltd.

**Mr. Yang Qing (楊青) (“Mr. Yang”), born in 1982**, born in 1982, engineer, graduated from Liaoning University of Technology in high-voltage electrical apparatus with a bachelor degree in July 2006. Mr. Yang has more than 10 years of experience in the design, manufacture and management of enclosed busbars. He is currently the vice chief engineer and director of technical research department of Fuxin Enclosed Busbar Co., Ltd.

*Photovoltaic business*

**Chen Lei (陳雷) (“Mr. Chen”), born in 1977**, senior engineer on power system and automation , graduated from Wuhan University with a master degree in power system and automation. Before joining our Group, Mr. Chen had worked in the State Grid Corporation for 15 years, engaged in technical, engineering and marketing work of such sectors as power and electronic engineering, new energy technology and engineering. He is currently the general manager of Chengdu Electric.

**Wu Jianming (武建明) (“Mr. Wu”), born in 1962**, senior engineer and first-grade constructor (一級建造師), graduated from the Electrical Power School of Taiyuan Institute of Technology with a bachelor degree, major in thermal power (熱能動力專業). Mr. Wu has more than 30 years in thermal power and photovoltaic construction industry. He is currently the vice general manager of Chengdu Electric.

**Liu Zhao (劉召) (“Mr. Liu”), born in 1980**, engineer, graduated from the major of power system and automation of Xi’an University of Science and Technology. Mr. Liu has more than 13 years of experience in power engineering construction industry. He is currently the vice general manager and director of engineering department of Chengdu Electric.

**Shi Qing (石清) (“Mr. Shi”), born in 1979**, engineer, graduated from Xi’an Jiaotong University with a bachelor degree majoring in electrical engineering and automation. Mr. Shi is engaged in electrical design and engineering management for the past 10 years. He is currently the director of purchasing department of Chengdu Electric.

**Wang Huayu (王化宇) (“Mr. Wang”), born in 1984**, graduated from civil engineering department of Taiyuan University of Technology with a bachelor degree. Mr. Wang had led relevant technical teams to complete more than 20 large and medium- sized new energy design tasks. He is currently the director of design department of Chengdu Electric.



**Zhu Xinguang (朱欣光) (“Mr. Zhu”), born in 1970**, senior engineer, graduated from electrical engineering department of Shenyang University of Technology in 1992 with a bachelor degree majoring in high-voltage electrical apparatus. Mr. Zhu has extensive business management experience and professional qualifications accumulated for over 20 years. He is currently the general manager assistant of Chengdu Electric.

**Yan Sixin (閔四新) (“Mr. Yan”), born in 1967**, engineer, graduated from Northeastern University in 1989, bachelor with major in cyber security engineering. Mr. Yan has extensive business management experience and professional qualifications accumulated to nearly 30 years in fields of cyber security, environmental protection, equipment, energy management, production, procurement and investment. He is currently the director of technology and economics department of Chengdu Electric.

**Zeng Qingli (曾慶立) (“Mr. Zeng”), born in 1985**, class 1 registered structural engineer, graduated from civil engineering department of Shenzhen University with a bachelor degree. Mr. Zeng is a structural designer of the design institute of Chengdu Electric.

**Ran Ruifei (冉瑞飛) (“Mr. Ran”), born in 1987**, class 2 registered structural engineer, graduated from Civil Engineering Department of Central South University with a bachelor degree. Mr. Ran is a structural designer of the design institute of Chengdu Electric.

## 12. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at 17/F., Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong from the date of this circular and up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed “Material Contracts” of this appendix;
- (c) the annual reports of the Company for each of the two financial years ended 31 December 2015 and 31 December 2016;
- (d) the 2017 interim report of the Company;
- (e) the Company’s audited results for the year ended 31 December 2017;
- (f) the Asset Assessment Report;
- (g) the circular dated 19 January 2017 issued by the Company;
- (h) the circular dated 21 April 2017 issued by the Company;
- (i) this circular; and
- (j) the written consent referred to in the paragraph headed “Experts and Consents” in this appendix.

**Assessment Report**

**of Value of the Entire Equity Interests of**  
**New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.**  
**Involved in**  
**Northeast Electric Development Co., Ltd.’s Proposed**  
**Equity Transfer**

PXZPZ [2017]072

Base date of assessment: 31 July 2017

Date of assessment report: 14 September 2017



**SHENZHEN PENGXIN APPRAISAL LIMITED**

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**Table of Contents of the Assessment Report**

**STATEMENT OF ASSETS ASSESSOR ..... 34**

**SUMMARY OF THE ASSESSMENT REPORT ..... 36**

**FULL TEXT OF THE ASSESSMENT REPORT ..... 37**

**I The client, the assessed entity and other users of the assessment report as  
agreed in the Assets Assessment Engagement Letter ..... 37**

**II Assessment Objective ..... 43**

**III Assessment Object and Assessment Scope..... 43**

**IV Value Type and Definition ..... 47**

**V Base Date of Assessment..... 47**

**VI Assessment Basis..... 48**

**VII Assessment Methods ..... 51**

**VIII Procedures and Implementation of Assessment ..... 56**

**IX Assessment Assumptions ..... 57**

**X Assessment Conclusions ..... 59**

**XI Statements on Special Items..... 61**

**XII Limitation on use of this Assessment Report ..... 64**

**XIII Date of Assessment Report..... 65**

**Annex to the Assessment Report ..... 67**

**STATEMENT OF ASSETS ASSESSOR**

- I. During the implementation of this asset assessment business, we have followed the relevant laws and regulations and asset assessment guidelines, as well as the “Assets Assessment Engagement Letter” between us and the client, and have abided by the principles of independence, objectivity and fairness. Based on the information we collected during our practice, we state the contents of the assessment report objectively and assume the corresponding legal responsibility for the reasonableness of the assessment conclusions.
- II. The detailed list of assets and liabilities, relevant financial data and relevant business data or business-related information for the economic entity involved in the assessed object and scope of assessment, the legal ownership data of the assessed object and related assets involved, and other information were all declared or provided and confirmed by signature or other means by the client, the assessed entity and its relevant economic entities (hereinafter referred to as “data providers”). The professional opinions and the assessment report that we form are dependent on the information provided by the data providers to a large extent. The data providers are responsible for the truthfulness, legality, completeness and validity of such information while the client and related parties involved are responsible for the proper use of the assessment report.
- III. Except for the assessment service fee charged in accordance with the “Assets Assessment Engagement Letter” signed between us and the client, we have no existing or prospective interest relationship with the assessed object in the assessment report. We have no existing or prospective interest relationship with the parties involved, and we do not prejudice the parties involved.
- IV. We have fulfilled the necessary assessment procedures including the corresponding on-site investigation of the assessed object in the assessment report and the main assets involved. Methods of on-site investigation include on-site inquiry, sending letter of confirmation, on-site checkup, on-site monitoring, on-site observation and on-site inspection. Except as specifically stated to us by the client and the relevant parties involved, the internal structure, quality and efficacy of the assessed object and related assets involved, as well as physical assets or parts of physical assets (such as foundation and pipeline buried underground) that are unobservable under normal conditions are deemed by us to be in normal existence, possession and use. However, we do not provide any guarantee for this.
- V. We have given the necessary attention to the status of legal ownership of the assessed object and related assets involved and have examined the legal ownership of the assessed object and related assets involved. In addition, we have truthfully disclosed the status of the legal ownership which has been paid attention to and examined and have asked the client and the parties involved to improve the legal ownership to meet the requirements for the issuance of the assessment report. Given that confirming or expressing opinions on the legal ownership of the assessed object and related assets involved is beyond the scope of practice and ability of assessors, we do not provide any guarantee as to the legal ownership of the assessed object and related assets involved.

- VI. The analyses, judgments and conclusions in the assessment report issued by us are subject to assumptions and limitations in the assessment report. The users of the assessment report should take full account of the assumptions and limitations specified in the assessment report, the description of special matters and their impact on assessment conclusions.
- VII. The assessment conclusions are valid only on the base date of assessment as set out in the assessment report. The users of the assessment report should reasonably determine the useful life of the assessment report based on the asset status and market changes after the base date of assessment.
- VIII. Assessors and their assessment agency have the practicing qualifications and relevant professional assessment experience required by the assessment business. Except for the work product of assessment agency or experts disclosed in the assessment report, the assessment process did not use the work product of other assessment agencies or experts.
- IX. The purpose of assessors in performing the asset assessment is to assess the value of the assessed object and express professional opinions. Assessors do not assume the responsibility of the parties involved in making decisions. The assessment conclusions should not be regarded as a guarantee of the achievable price of the assessed object.
- X. The use of the assessment report is limited to the purpose of assessment stated in the assessment report, and the consequences arising from improper use of the report have nothing to do with the signatory assessors and their assessment agency.

## SUMMARY OF THE ASSESSMENT REPORT

**of Value of the Entire Equity Interests of  
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. Involved in Northeast  
Electric Development Co., Ltd.'s Proposed Equity Transfer  
PXZPZ [2017]072**

**Notes to users and readers of the assessment report:** The summary of the assessment report is taken from the text of the assessment report. To learn the details of this assessment project and reasonably understand the assessment conclusions, please read the full text of the assessment report carefully.

Entrusted by Northeast Electric Development Co., Ltd., Shenzhen Pengxin Appraisal Limited has assessed the market value of the 100% stake in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., which is involved in Northeast Electric Development Co., Ltd.'s economic behavior of proposing to transfer equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., on the base date of assessment. The contents of the assessment report are now summarized as follows:

- I. Purpose of assessment: Northeast Electric Development Co., Ltd. proposed to transfer the equity it holds in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. To this end, Northeast Electric Development Co., Ltd. has entrusted Shenzhen Pengxin Appraisal Limited to assess the market value of the entire equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., to provide value reference for the above economic activity.
- II. Assessed object: the entire equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. The scope of assessment corresponding to the assessed object is the audited total assets and liabilities declared by New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. as of the base date of assessment on 31 July 2017.
- III. Base date of assessment: 31 July 2017
- IV. Type of value: market value.
- V. Method of assessment: The asset-based approach is applied to assess the value of the 100% equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.
- VI. Assessment conclusions:

According to the assessment results of the asset-based approach, the market value of the 100% stake in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. was RMB112,193,100 as of the base date of assessment on 31 July 2017 (in words: **RENMINBI ONE HUNDRED AND TWELVE MILLION ONE HUNDRED AND NINETY THREE THOUSAND AND ONE HUNDRED ONLY**)

Users of the assessment report should give full consideration to the assumptions and limitations specified in the assessment report, the description of special matters and their impact on the assessment conclusions.

The assessment conclusions are valid only on the base date of assessment as set out in the assessment report. The results of asset assessment are valid for one year from the base date of assessment (from 31 July 2017 to 30 July 2018). The assessment conclusions are valid only on the base date of assessment as set out in the assessment report. The users of the assessment report should reasonably determine the useful life of the assessment report based on the asset status and market changes after the base date of assessment.

### FULL TEXT OF THE ASSESSMENT REPORT

**of the Value of the Entire Equity Interests of  
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. Involved in Northeast  
Electric Development Co., Ltd.'s Proposed Equity Transfer  
PXZPZ [2017]072**

#### **Northeast Electric Development Co., Ltd.**

Entrusted by your company and in accordance with the relevant laws and regulations and assets assessment guidelines, we have adopted a well-established assessment approach and followed the necessary assessment procedures to assess the market value of the entire shareholder's equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., which is involved in Northeast Electric Development Co., Ltd.'s behavior of proposing to transfer the entire equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., on 31 July 2017. The situation of assets assessment is hereby reported as follows:

#### **I. THE CLIENT, THE ASSESSED ENTITY AND OTHER USERS OF THE ASSESSMENT REPORT AS AGREED IN THE ASSETS ASSESSMENT ENGAGEMENT LETTER**

##### **(I) Profile of the client**

Name of client	:	Northeast Electric Development Co., Ltd. (Hereinafter referred to as " <b>Northeast Electric</b> ")
Registration number	:	91210000243437397T
Type	:	Joint stock limited company (Taiwan, Hong Kong or Macau and domestic joint venture, listed)
Legal domicile	:	Floor 23, Building 4, No.9, East Taihu Road, Xinbei District, Changzhou
Legal representative	:	Su Jianghua

Registered capital	:	RMB873,370,000
Scope of business	:	Production and sales of power transmission equipment and accessories; development, consulting, transfer and testing services of power transmission technology; wholesale of metal materials, rubber and rubber materials and products, insulating materials, ceramic materials and products, chemical raw materials and products (excluding dangerous goods), electronic components, instruments, as well as electrical and mechanical equipment and spare parts (the above goods do not involve specially-managed goods such as goods related to state trade, import and export quota license, export quota bidding and import and export license). (Items legally subject to approval shall be approved by relevant authorities prior to business operation.)
Date of establishment:	:	13 May 1998

## (II) Profile of the assessed enterprise

### 1. Overview

Name of the assessed enterprise	:	New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. (Hereinafter referred to as “ <b>Xin Jin Rong</b> ”)
Unified social credit code	:	91210700752789470E
Type	:	Limited liability company (Sino-foreign joint venture)
Legal domicile	:	No.49, Jinhua Street, Guta District, Jinzhou
Principal business premise	:	No.49, Jinhua Street, Guta District, Jinzhou
Legal representative	:	Lin Bin
Registered capital	:	USD15,450,000



Scope of business	:	Production and processing of power capacitors, reactive power compensation devices, high and low voltage switchgears, transformers, over-voltage absorbers, capacitor devices, vacuum switch controllers and relay protection devices; development, consulting, transfer and testing services of power transmission technology; wholesale of metal materials, rubber materials and products, insulating materials, chemical raw materials and products (excluding dangerous goods), electronic components, instrumentation, reactors, discharge coils, disconnectors, current transformers, surge arresters, mechanical equipment and spare parts (the above goods involved in quota license management and special management should be handled in accordance with relevant regulations of the country). (Items legally subject to approval shall be approved by relevant authorities prior to business operation.)
Date of establishment	:	3 November 2003
Term of operation	:	from 3 November 2003 to 3 November 2033

## 2. Historic Development

### (1) Equity structure at the time of corporate establishment

On 3 November 2003, with the approval of Jinzhou City Administration of Industry and Commerce, New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. (Xin Jin Rong) was established. At the time of establishment, its registered capital was USD10 million. Table 1.1 lists the specific capital contributions and proportions of contribution (equity structure) by shareholders at the time of establishment.

**Table 1.1 Equity structure of Xin Jin Rong at the time of establishment**

Shareholder Name	Committed Capital Contribution (USD)	Proportion of Committed Capital Contribution (%)	Actual Capital Contribution (USD)	Actual Proportion of Capital Contribution (%)
Shenyang Kaiyi Electric Limited	4,800,000.00	48.00	4,800,000.00	48.00
BVI Great Talent Technology Ltd	5,200,000.00	52.00	5,200,000.00	52.00
<b>Total</b>	<b>10,000,000.00</b>	<b>100.00</b>	<b>10,000,000.00</b>	<b>100.00</b>

- (2) Equity structure after the latest increase in capital and shares prior to the base date of assets assessment

On 26 February 2009, the shareholders' meeting passed a resolution, allowing Shenyang Kaiyi Electric Limited to increase its capital and shares in Xin Jin Rong, with the specific amount of USD5.45 million. This increase was verified by Jinzhou Xinhua Accounting Firm Co., Ltd. in its Capital Verification Report (Jinzhou Xinhua Yan Zi [2009] No.29). Jinzhou City Administration of Industry and Commerce confirmed it and completed the relevant industrial and commercial change registration.

**Table 1.2 shows the equity structure after this increase in capital and shares.**

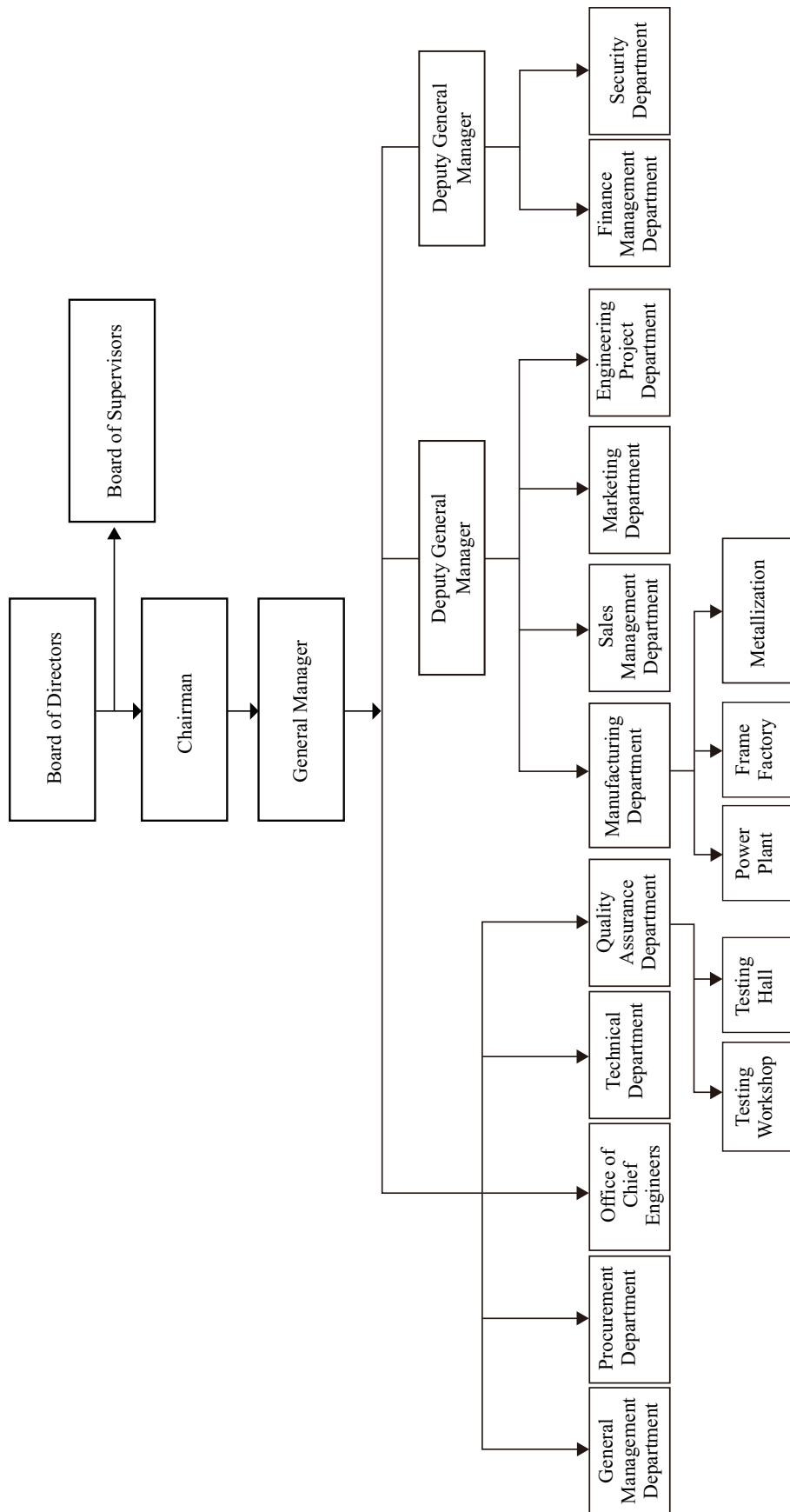
Table 1.2 Equity structure of Xin Jin Rong after the increase in capital and shares on 26 February 2009

Shareholder Name	Committed Capital Contribution (USD)	Proportion of Committed Capital Contribution (%)	Actual Capital Contribution (USD)	Actual Proportion of Capital Contribution (%)
Shenyang Kaiyi Electric Limited	10,250,000.00	66.30	10,250,000.00	66.30
BVI Great Talent Technology Ltd	5,200,000.00	33.70	5,200,000.00	33.70
<b>Total</b>	<b>15,450,000.00</b>	<b>100.00</b>	<b>10,000,000.00</b>	<b>100.00</b>

- (3) Equity structure of Xin Jin Rong on the base date of assets assessment (31 July 2017)

The equity structure of Xin Jin Rong on the base date of assets assessment (31 July 2017) is as shown in Table 1.2.

3. Operation management organization structure



#### 4. Main business, industry, and service area of the company

The company's main business is the production and sale of capacitance components and parts, and the main service area is in China.

#### 5. Financial position of the assessed enterprise on the base date of assessment and over the past two years

Unit: RMB10,000

End of Accounting Period	31 December 2015	31 December 2016	31 July 2017
Total assets	21,743.11	15,728.38	13,663.40
Total liabilities	5,533.91	3,798.02	3,536.20
Shareholders' equity interest	16,209.20	11,930.36	10,127.20
			<b>January to</b>
During Accounting Period	2015	2016	July 2017
Operating revenue	10,202.87	2,909.56	176.98
Total profits	723.81	-3,583.18	-1,943.15
Net profits	536.14	-4,278.85	-1,943.15

Note: The preceding accounting data was audited by Ruihua Certified Public Accountants (special general partnership) with the audit report (Ruihua Shen Zi [2017] No. 48190025).

#### 6. Relationship between the client and the assessed enterprise

The client holds 100% of the equity interests in Shenyang Kaiyi Electric Limited and BVI Great Talent Technology Ltd, respectively. Shenyang Kaiyi Electric Limited and BVI Great Talent Technology Ltd hold 66.30% and 33.70%, respectively, of the equity interests in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. The client is the de facto controller of the assessed enterprise.

- (ii) Other assessment report users stipulated in this Assets Assessment Engagement Letter

Other assessment report users stipulated in this Assets Assessment Engagement Letter are the client and its shareholders, as well as assessment report users stipulated by national laws and regulations.

**II. ASSESSMENT OBJECTIVE**

Northeast Electric plans to transfer its stake in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. Therefore, Northeast Electric entrusted us to evaluate the market value of all the shareholder equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. The assessment result will serve as valuable reference for the aforementioned economic behavior.

**III. ASSESSMENT OBJECT AND ASSESSMENT SCOPE****(1) Assessment object**

In accordance with the assessment objective, the assessed object is all the shareholder equity interests of Xin Jin Rong.

**(2) Assessment scope**

The assessment scope, corresponding to the assessed object, is all the audited assets and liabilities of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. as of 31 July 2017 (base date of assessment), as declared by New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.

For this assessment, Xin Jin Rong declares the total assets (book value) of RMB136,634,000, liabilities (book value) of RMB35,362,000, and net assets (book value) of RMB101,272,000, as shown in the following table (unit: RMB).

**Table 3.1 Balance sheet declared by Xin Jin Rong for assessment**

<b>Item</b>	<b>Book Value</b>
<b>I. Total current assets</b>	<b>105,179,013.04</b>
Monetary capital	513,245.61
Receivables	95,068,675.56
Prepayment	131,147.88
Other receivables	2,898,681.60
Inventory	4,908,967.81
Other current assets	1,658,294.58
<b>II. Total non-current assets</b>	<b>31,455,020.69</b>
Fixed assets	30,254,797.71
Liquidation of fixed assets	629,668.46
Long-term unamortized expenses	570,554.52
<b>III. Total assets</b>	<b>136,634,033.73</b>

<b>Item</b>	<b>Book Value</b>
<b>IV. Total current liabilities</b>	<b>35,362,005.48</b>
Notes payable	40,000.00
Accounts payable	11,744,208.84
Advance receipt	323,600.53
Payroll payable	2,148,569.79
Tax payable	25,496.04
Other payables	21,080,130.28
<b>V. Total non-current liabilities</b>	<b>–</b>
<b>VI. Total liabilities</b>	<b>35,362,005.48</b>
<b>VII. Net assets</b>	<b>101,272,028.25</b>

1. The preceding accounting data was audited by Ruihua Certified Public Accountants (special general partnership) with the audit report (Ruihua Shen Zi [2017] No. 48190025). This assessment is conducted on the basis of that.
2. The object and scope of the entrusted assessment are the same as the assessed object and scope involved in the economic behavior.

**(3) Ownership, status, and use of main tangible assets covered in this assessment**

The tangible assets owned by the assessed enterprise include inventory and fixed assets. The fixed assets are mainly buildings, vehicles, machines and electronics. The details are as follows:

**1. Inventory**

The inventory includes raw materials, finished products, and semi-finished products. Raw materials mainly include 591 items: polypropylene film, aluminum foil, cable paper, paperboard, copper pipe, connector lug, ceramic bottle, stainless steel, accessories, metalized stock materials, dry stock materials, etc. Finished products mainly include 193 items: 50-334 kilovar capacitors, metalized capacitors, equipment sets, mutual inductors, etc. Semi-finished products mainly include 262 items: semi-finished electric products, components, unfinished electric products, insulators, paper-covered flat copper wires, etc.

The inventory is stored in the company's factory warehouse and properly managed. Some assets are already subject to depreciation due to long periods of non-use, poor sales, and market changes. For details, see the assets assessment statement.

## 2. Buildings

There are two declared buildings: building 1 is used for production of mutual inductors, whereas building 2 is used for residence. According to the title deeds provided by the assessed enterprise, both buildings belong to New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., as shown in the following table:

No.	Title Deed No.	Building Name	Location	Structure	Completion Time	Construction Area (m <sup>2</sup> )
1	00181455	Mutual inductor production building	No.9, Lao Bao Bei Li, Linghe District	Mixed	June 2004	4049.00
2	00332927	Residence (Xin Zhi Bei Li)	A-33, No.32, Xin Zhi Bei Li, Linghe District	Mixed	June 2008	36.40

In the preceding table, the mutual inductor production building at No.9 Lao Bao Bei Li, Linghe District uses a piece of leased land. The owner has the title deed of this building but no land use certificate.

## 3. Equipment assets

The declared machines and equipment include 337 items, mainly capacitor production equipment, such as: conveyors (elevators), hydraulic plate bending machines, coilers, vacuum impregnation units, splitting machines, winding machines, containers, electric decontamination chambers, power frequency testing transformers, power distribution cabinets, fully automatic winding machines and voltage-withstanding equipment, power capacitor vacuum drying & impregnating equipment, high-voltage coilers, voltage-withstanding devices, capacitor painting robot workstations, automatic capacitor shot-blast equipment, automatic painting equipment, vacuum pumps, high-voltage capacitor automatic testing wires, winding machines, etc.

There are 275 items of electronic equipment declared: computers, photocopiers, printers, air conditioners, other office items, dust particle counters, oil testers, digital capacitor loss bridges, peak current detectors, surge testers, digital recorders, and other measurement and detection instruments.

There are five vehicles declared: four general transport vehicles and one forklift. The four transport vehicles have been licensed and examined in compliance with rules.

**(4) Long-term equity investment**



The scope of this assessment involves one long-term equity investment. The investment target is Jinzhou Jinrong Electric Appliance Co., Ltd, the investment date is June 2005, the proportion of shareholding is 69.75%, and the investment cost is RMB8,757,039.76. The basic information about the investee is as follows:

Name	:	Jinzhou Jinrong Electric Appliance Co., Ltd.
Registration number	:	210700004066726
Type	:	Other limited liability companies
Domicile	:	No.9, Lao Bao Bei Li, Linghe
District Legal representative	:	Li Guanjun
Registered capital	:	RMB3 million
Main operation scope	:	production of dry high-voltage capacitor units and sets of devices, and low-voltage automatic compensating tanks (Items legally subject to approval shall be approved by relevant authorities prior to business operation)
Date of establishment	:	19 August 1998
Business operation term	:	19 August 1998 to 16 June 2029

**(5) Intangible assets declared but not reflected in the balance sheet as of the base date of assessment**

There are three items of intangible assets declared by the assessed enterprise, as shown in the following table:

**1. Trademarks**

Trademark	Trademark Name	Application Time	Registration Number	Type
	Xing Yue (Chinese characters)	July 1981	164842	9-Scientific instrument
	JZMC Jin Qiu (Chinese characters)	June 1991	595326	9-Scientific instrument



## 2. Patented technology

Name	Patent Type	Application Number	Published Application Number	Date of Issue
Special copper-aluminum transition cable clamp for electric capacitor units	Utility model	CN201620932947.0	CN205900828U	January 2017

### (6) Off-balance-sheet assets declared

Aside from the aforementioned intangible assets, Xin Jin Rong does not have any other undeclared off-balance-sheet assets related to the corresponding economic behavior.

### (7) Assets involved in the report conclusions cited from other assessment agencies

The balance sheet covered in this assessment does not involve any conclusions from other assessment agencies' reports.

## IV. VALUE TYPE AND DEFINITION

Usually there are two types of enterprise value assessment for choice: market value assessment and non-market value assessment.

According to the assessment objective, the conditions of the assessed object, and relevant state regulations on assessment, this current assessment is to evaluate the market value of the assessed enterprise as an ongoing concern.

Market value refers to the estimated amount of normal fair trading by the assessment object on the base date of assessment, under the premises of free will of the seller and buyer and without coercion.

## V. BASE DATE OF ASSESSMENT

The base date of this assessment is 31 July 2017.

In order that the implementation of the target economic behavior can be as close to the base date of assessment as possible, after taking into account various factors, such as the time for account settlement, assets examination, and financial report formulation of the assessed enterprise, as well as the overall plan of the target economic behavior, the client determines the end of the aforementioned accounting period as the base date of this current assessment.

The price standards (including but not limited to prices, taxes, rates, exchange rates, and deposit and loan interest rates) adopted in this assessment are the valid price standards on the base date of assessment or in proximity to the date of assessment.

**VI. ASSESSMENT BASIS**

The guidelines with which this asset assessment complies mainly include behavior guidelines, legal guidelines, assessment criteria guidelines, asset ownership evidence, price standards for assessment and estimates, and other references. The details are as follows:

**(1) Behavior basis**

1. Resolution passed by the 6th meeting of the 5th board of directors of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd
2. Assets Assessment Engagement Letter signed between the client and our company

**(2) Legal basis**

1. Company Law of the People's Republic of China (issued on 28 December 2013 by the Order of the President of the People's Republic of China, No.8)
2. Corporate Income Tax Law of the People's Republic of China (passed on 16 March 2007, by the 5th session of the 10th National People's Congress)
3. Land Management Law of the People's Republic of China (issued on 28 August 2004 by the Order of the President of the People's Republic of China, No.28)
4. Urban Real Estate Management Law of the People's Republic of China (issued on 27 August 2009 by the Order of the President of the People's Republic of China, No.18)
5. Provisional Regulations on Added-Value Tax of the People's Republic of China (issued on 6 February 2016 by the Decree of the State Council of the People's Republic of China, No.666)
6. Rules for Implementing Provisional Regulations on Added-Value Tax of the People's Republic of China (revised and issued on 28 October 2011 by the Ministry of Finance and State Administration of Taxation of China, No.65 Decree)
7. Assets Assessment Law of the People's Republic of China (issued on 2 July 2016 by the Order of the President of the People's Republic of China, No.46)
8. Property Law of the People's Republic of China (passed on 16 March 2007 by the 5th session of the 10th National People's Congress, issued on 16 March 2007 by the Order of the President of the People's Republic of China, No.62)

9. Securities Law of The People's Republic of China (passed on 29 December 1998 by the 6th session of the 9th National People's Congress Standing Committee)
10. Administrative Measures for the Significant Asset Reorganizations of Listed Companies (passed on 1 September 2016 by the 10th Chairman Office meeting of China Securities Regulatory Commission after deliberation, and implemented as from 23 November 2014)
11. Other relevant documents pertaining to laws, regulations, and norms.

**(3) Reference basis**

1. Standards for the Assessment of Assets – Basic Standards (Order No.20 [2004] from Ministry of Finance (“MOF”))
2. Professional Codes of Ethics for Assets Assessment – Basic Standards (Order No.20 [2004] from MOF (“MOF”))
3. Professional Codes of Ethics for Assets Assessment – Independence (Order No.248 [2014] from China Assessment Society (“CAS”))
4. Assets Assessment Standards - Engagement Letters (Order No.230 [2011] from CAS)
5. Assets Assessment Standards - Assessment Reports (Order No.230 [2011] from CAS)
6. Assets Assessment Standards - Assessment Procedures (Order No.189 [2007] from CAS)
7. Assets Assessment Standards - Real Estate (Order No.189 [2007] from CAS)
8. Assets Assessment Standards - Machinery (Order No.189 [2007] from CAS)
9. Guiding Opinions on Value Type of Assets Assessment (Order No. 189 [2007] from CAS)
10. Assets Assessment Standards - Enterprise Value (Order No.227 [2011] from CAS)
11. Guidance Notes on Checking Ownership of Valuation Object for Certified Public Assessors (Order No.18 [2003] of Chinese Institute of Certified Public Accountants)
12. Assets Assessment Standards - Working Paper (Order No.189 [2007] from CAS)
13. Guidelines for Service Quality Controls for Assessment Institutions (Order No.214 [2010] from CAS)

**(4) Ownership basis**

1. Business License for Legal Person, Articles of Associations, and Reports on the Verification of Capital of the client and the assessed entity
2. Industrial and commercial registration information about the client and the assessed entity
3. House ownership certificate, significant equipment purchase contract, purchase invoice provided by the assessed entity
4. Accounting documents and other information in connection with the acquisition and use of the assets of the assessed entity

**(5) Pricing basis**

1. Accounting record and financial reports provided by the assessed entity in connection with its operation
2. Information related to the effective lending rate on the base date of assessment
3. National macro and regional market statistics and analysis in connection with the industry in which the assessed entity operates
4. Price catalogue or quotations
5. Assessors' site investigation records and other price information collected
6. Other references in connection with the assessment

**(6) Other references**

1. Assets Assessment Statements and the Auditors' Report as of the base date provided by the assessed entity
2. Other references

## VII. ASSESSMENT METHODS

### (1) Selection of assessment methods

The basic methods for enterprise value assessment mainly include the income approach, the market approach and the asset-based approach.

The income approach for the assessment of enterprise value represents the assessment method for determining the value of the assessed entity by capitalizing or discounting the expected income. The methods generally used by the income approach include dividend discounted method and discounted cash flow method.

The market approach for the assessment of enterprise value represents the assessment method for determining the value of the assessed entity through the analysis of recent sales of the comparable listed companies or the comparable transactions. The two methods generally used by the market approach include the comparable listed company method and the comparable transaction method.

The asset-based approach reasonably establishes values of assets and liabilities on and off-balance sheet of the assessed entity on the base date to confirm the value of assessed object.

The approaches used in the assessment are the income approach and the asset-based approach in light of the assessment goal, assessed object, value type, collection of information and the applicable conditions for these three fundamental assessment approaches. The assessment approaches are selected based on the following reasons:

There is a lack of comparable listed companies similar or identical to the assessed entity in the domestic capital market. The equity trading market for non-listed companies is underdeveloped, and the trading information is not disclosed, leading to the absence of or difficulties in obtaining the comparatively complete equity trading cases of similar enterprises. Therefore, the market approach is not applicable for the assessment.

Based on the analysis on the relevant national policies, the economic environment in China, and the development of the relevant industries, “Xin Jin Rong” continuously registers significant loss and runs into operation difficulties due to declining operating revenue from 2016 under the common impact of energy conservation and emission reduction of the industry, changing demands of the power supply market, overcapacity and intense market competition. As of the base date, the operation of “Xin Jin Rong” shows no sign of turnaround, and it is hard to estimate its future income and quantify the risks exposures in a reasonable manner. As a result, the income approach is not used in the assessment.

“Xin Jin Rong” has complete accounting record in place, and the title of each asset and liability included within the scope of assessment is clearly defined. The value of each asset and liability can be estimated in a reasonable manner. Therefore, it is applicable to use the asset-based approach in the assessment.

Based on the analysis above, the asset-based approach is used in the assessment.

## (2) Overview of the application of the asset-based approach

According to the definition of the asset-based approach under the enterprise value assessment, the basic model for enterprise value assessment is:

Total value of shareholders' equity = Total value of each asset of the enterprise (exclusive of value of the intangible assets) - Total value of each liability of the enterprise

The investee owns a total of 3 intangible assets in trademarks and patents. As the company's operating income has continuously decreased significantly in recent years, it has sustained serious losses and business difficulties, and there was no sign of improvement as of the base date of assessment. Future earnings are difficult to predict objectively, the risks on the corresponding operations cannot be reasonably quantified and the value of the three intangible assets cannot be reflected in the operating income of the company. Therefore, we did not assess them individually during this assessment. The total value of assets of the assessed enterprise excludes the value of those three intangible assets.

Except the intangible assets mentioned above, the assessment approaches for each category of asset and liability are summarised as follows:

### 1. Current assets

Current assets to be assessed include cash at bank and on hand, accounts receivable, prepayments, other receivables, inventories and other current assets.

- (1) Cash at bank and on hand: The assessor checked the carrying amount of the cash at bank and on hand. The carrying amount verified is recognised as the assessment value of the monetary fund denominated in Renminbi.
- (2) Accounts receivable: Receivables, prepayments and other receivables are included.

In respect of the accounts receivable and other receivables, the Company recognised the recoverable amount or the carrying amount verified as the assessed value by specifically analysing the amounts, timing, causes, recovery, and the funding availability, credit, operation and management of the debtors, after verifying its value composition and the status of debtors. Our Company also analysed the causes for each prepayment, and determined the assessed value of such prepayments at the carrying amounts of the assets or rights constituted upon recovery, or after verification.

- (3) Inventories: Raw material, finished products and work in progress are included.

In respect of inventories, our Company verified the purchase invoices, accounting documents and the relevant contracts based on the inventory list provided by the enterprise, in order to understand the storage of inventory, internal control system, and carry out supervision of inventory taking.

For the raw material purchased recently, the carrying unit price approximated to the market price. The carrying amount of such raw material was recognised as the assessed value after verification.

Our Company recognised the carrying amount verified as the assessed value based on the understanding of products and examination of carrying value compositions.

In respect of finished products, the value verified was recognised as the assessed value, as the sales margin of the enterprise was negative. The carrying amount of the finished products whose gross margin is negative is adjusted based on the gross margin.

The net realisable value of the raw material of inventories retained, the finished products unmarketable and the work in progress aging over six months was recognised as the assessed value.

The diminution of inventory was estimated to be nil.

- (4) Other current assets include the rental expenses of buildings, sites, equipment prepaid to Jinzhou Power Capacitor Company Limited, the debit balance reclassified into value-add tax and the debit balance reclassified into corporate income tax.

In terms of the rental expenses for the buildings, sites and equipment, the Company recognised the carrying amount verified as the assessed value after checking their value composition and the debtors. The verified carrying amount of the debit balance reclassified into value-added tax and the debit balance reclassified into corporate income tax was recognised as the assessed value, after the causes for such debit balances are analysed.

## 2. Non-current assets

### (1) Long-term equity investment

Long-term equity investment in the controlled investee which operates normally was assessed on the same basis for the assessment of the investee, i.e. the net assets of the investee as assessed collectively were multiplied by the assessed value of the long-term equity investment determined based on shareholding proportion.

### (2) Fixed assets - Buildings

Buildings are assessed using cost method. The value assessment formula for the key buildings is as follows:

Assessed value of a building = Total replacement cost of the building x comprehensive residual ratio

Total replacement cost of a building = Upfront expenses + Overall price of building construction + Other expenses + Reasonable profits

Comprehensive residual ratio of a building = Residual ratio based on site observation x 60% + theoretic residual ratio x 40%

The residual ratio is rated based on the observation of the structure (weight: 70%), fitment (weight: 20%) and equipment (weight: 10%) of the buildings. The sum of each product of the rate multiplying the weight is the residual ratio, i.e.

Residual ratio based on site observation = Structure rate x 70% + Fitment rate x 20% + Equipment rate x 10%

Theoretic residual ratio = Economically useful life – Life used/Economically useful life x 100%

the residual ratio of the non-key buildings is estimated based on theoretic residual ratio.

### (3) Fixed assets - Equipment

Equipment is assessed using cost method. The value assessment formula for the key equipment is as follows:

Assessed value of the equipment = Total replacement cost of the equipment x Comprehensive residual ratio



- ① The estimation approach for the replacement cost and the residual ratio of the key heavy-duty equipment requiring installation and commission

Total replacement cost of heavy-duty equipment = Purchase price of the equipment + Freight + Installation and commission expenses + upfront and other expenses + capital cost

Comprehensive residual ratio = Residual ratio based on site observation x 60% + Theoretic residual ratio x 40%

- ② The estimation approach for the replacement cost and the residual ratio of the general equipment not requiring installation and commission

Replacement cost of general equipment = Purchase price of the equipment

- ③ The estimation approach for the replacement cost and the residual ratio of the general motor vehicles

Total replacement cost of general motor vehicles = Purchase price of the vehicles + Vehicle purchase tax + License expenses

Comprehensive residual ratio = Residual ratio based on site observation x 60% + Mileage-based residual ratio x 40%

Mileage-based residual ratio = (Prescribed miles driven – Miles driven) / Prescribed miles driven x 100%

According to the prevailing national taxation policies, the purchase price for the said equipment does not include value-added tax.

- (4) Disposal of fixed assets

The assessor checked the original accounting vouchers to understand the process and the approval procedures, as well as the specific approach for the disposal of fixed asset. The recoverable value less the tax on disposal of fixed assets is recognised as the assessed value.

- (5) Long-term deferred expenses

The assessor checked the original accounting vouchers to understand the contents, date, number of months estimated and deferred, and the date of retained earnings subsequent to the base date of the long-term deferred expenses. The deferred value of the long-term deferred expenses is recognised as the assessed value.

**3. LiabilitiesLiabilities**

The assessment of the enterprise liability is verified by audit. The assessor checked the documents, contracts, accounts and the related vouchers to confirm the authenticity of such liability. The carrying amount or the liabilities assumed by the enterprise is recognised as the assessed value. The liability which is not debt in nature is assessed as nil.

**VIII. PROCEDURES AND IMPLEMENTATION OF ASSESSMENT****(1) Define the basic matters for the assessment**

Expressly indicate the client, the assessed entity, assessment purpose, assessed objects and assessment scope, base date of assessment, limitations on use of assessment report, assessment report submission date and manner and other basic matters for the assessment, through obtaining the overall plan from the client.

**(2) Execute an Assets Assessment Engagement Letter**

Our Company will, based on the basic information on the assessment business obtained, conduct a comprehensive analysis and evaluation of its professional competence, independency and business risks, and will finally determine whether to enter into an Assets Assessment Engagement Letter with the client.

**(3) Prepare an assessment plan**

Based on the specific facts of the assessment project, a project manager and members of assessment team will be assigned. The project manager will prepare an evaluation plan, setting forth the detailed procedures, timing requirements and job responsibilities of members in connection with the assessment project, and submit the assessment plan to the division manager and the general manager for their consideration and approval.

**(4) On-site Investigation**

The assessment team members will, in accordance with the approval assessment plan, enter into the premises of the assessed entity for the purpose of on-site investigation, which mainly include operation conditions of the entity, enquiring related personnel of the entity for the operations, protection and maintenance of tangible assets within the assessment scope.

**(5) Collect documents required for assessment**

The assessment team members will conduct all documents and information in connection with this Assessment as required, including the financial documents, property ownership certificates respecting the assessed entity, market price information of equipment (depending on asset types), industry information etc.

**(6) Assessment**

Prepare the detailed assessment approaches for various types of assets consistent with the actual conditions and features of the assessed objects, and conduct assessment of assets within the scope of assessment respectively, and determine the assessed value.

**(7) Prepare and submit assessment report**

The person in charge of the project (namely, the assessor who will sign on this Report) will prepare an assessment report based on the work above, which will be submitted to the client after the internal review procedures.

**IX. ASSESSMENT ASSUMPTIONS**

The assessors follow the following assumptions under this Assessment. This assessment report is prepared and conclusions are reached in reliance upon the following assumptions:

**(1) Basic assumptions**

**1. Assumptions on transactions**

The assumptions on transactions are all assets/objects proposed to be assessed are in the process of transaction, and assessors will conduct value assessment on transaction conditions of assets proposed to be assessed and other conditions under a simulation market model.

**2. Open market assumptions**

Open market assumptions: it is assumed that the proposed assessed assets/assessed assets are transacted in an open market so that their market value may be realized. Market value of assets is conditional upon market mechanism and subject to the market conditions and not determined by individual transactions. Open market referred to herein shall mean a market with mature and advanced market conditions where a competitive market exists having voluntary buyers and sellers who have the equal status and have the opportunities and time for the obtaining of sufficient market information, and whose transactions are out of free will and prudent decisions, without any coercion or compulsory forces.

**3. Assumptions as an ongoing concern**

Assumptions as an ongoing concern: it is assumed that the proposed assessed assets will continue to be used according to the same use, in the same manner, size, frequency, environment, or used after certain changes with assessment manners, parameters and basis to be determined correspondingly.

**(2) Assumptions on external environment**

1. It is assumed that no major change occurs to the applicable state laws, regulations, policies and macroeconomic conditions, and no major change occurs to the political, economic and social environment in the places where each party to the transaction is resident.
2. It is assumed that no major change occurs to any applicable interest rate, exchange rate, tax base and tax rate, government surcharge and financing conditions etc.
3. It is assumed that no other force majeure event or unforeseeable event occurs that may have an adverse effect on the enterprise.

**(3) Assumptions on assessed objects and scope**

1. It is assumed that the management of the enterprise in the future acts in a diligent manner, and the current operation and management model will be maintained.
2. The assessment will only be based on the current operation capacity on the base date, without consideration of any expansion of operation as a result of any management, business strategies and additional investments and other events that are likely to occur in the future.
3. The assets proposed to be assessed are the actual inventory on the base date of assessment, and the current market prices of relevant assets are the domestic effective prices on the assessment base date.
4. The assessment scope shall be subject to that in the assessment request submitted by the client or the assessed entity, without consideration of any existing or contingent assets or contingent liabilities other than those included in the list submitted by the client and the assessed entity.

**(4) Assumptions on authenticity of documents**

It is assumed under this Assessment that all basic documents and financial documents furnished by the client and the assessed entity are true, accurate and complete.

The assessment result will generally become invalid in case of any change to the above conditions.

**X. ASSESSMENT CONCLUSIONS**

We opine that, except for the special statements set forth in the assessment report, assuming Xin Jin Rong is an on-going basis and according to the assessment purpose, value types, assessment basis and assessment presumptions set forth in this Report, the assessment results shall be as follows:

**(1) Result under an asset-based approach**

Under an asset-based approach, the entire equity interests of Xin Jin Rong have a market value of RMB112,193,100 on the base date of assessment, 31 July 2017, in words, RMB one hundred and twelve million one hundred and ninety three thousand one hundred only.

Details of the assessment result are set out in the Table 10.1 below.

**Table 10.1 Summary Table of Assets Assessment Result**

Base Date of Assessment: 31 July 2017

*Unit: RMB*

	Item	Book value B	Assessed value C	Increase or decrease D=C-B	Value increase rate (%) E=D/B*100%
1	Current assets	105,179,000	108,343,400	3,164,400	3.01
2	Non-current assets	31,455,000	39,211,700	7,756,700	24.66
3	Of which: long-term equity investments	–	493,500	493,500	
4	Real estate as investment	–	–	–	
5	Fixed assets	30,254,800	37,497,800	7,243,000	23.94
6	Construction in process	–	–	–	
7	Intangible assets	–	–	–	
8	Of which: land use right	–	–	–	
9	Other non-liquid assets	–	–	–	
10	<b>Total assets</b>	<b>136,634,000</b>	<b>147,555,100</b>	<b>10,921,100</b>	<b>7.99</b>
11	Current liabilities	35,362,000	35,362,000	–	–
12	Non-current liabilities	–	–	–	–
13	<b>Total liabilities</b>	<b>35,362,000</b>	<b>35,362,000</b>	<b>–</b>	
14	<b>Net assets (owner's equity)</b>	<b>101,272,000</b>	<b>112,193,100</b>	<b>10,921,100</b>	<b>10.78</b>

For details of the assessment result, please refer to the summary table of assets assessment result and assessment break-down.

The increased value under this Assessment results from the combination of the following factors:

1. Accounts receivable

The assessed risk loss is less than the bad debt provision made by the enterprise, which results in appreciation;

2. Inventory

The finance department has the full amount of provision for depreciation, while under the Assessment the same are assessed according to their net realizable value, which results in appreciation;

The basic formula for the valuation is: net realizable value of inventory = estimated selling price of inventory - estimated costs to be incurred for the completion - estimated selling expenses - related taxes. Due to the inability to normally use or sell the inventory on which the impairment has been fully provided, the estimated selling price of inventory is determined with reference to the market recovery price of wastes. The inventory is assumed to be sold as-is, and therefore no unnecessary estimated costs will be incurred for the completion. The selling expenses are the cost for the successful sale of the inventor and the relevant taxes are mainly added-value tax.

3. Fixed assets

The economic life time adopted under the Assessment is longer than the depreciation period adopted in accounting, which results in appreciation;

The accounting depreciation life adopted by the enterprise are the same depreciation period for the same type of fixed assets determined based on the requirements of tax laws and accounting standards, while the economic useful life of fixed assets varies according to the specific category, quality standards and the intensity of effective use and maintenance. And in general, the economic useful life are longer than the accounting depreciation life.

4. Long-term equity investments

The independently assessed value of the investees is greater than the net book value deducting the provision for impairment of assets, which results in appreciation.

The separate evaluation of the investee means determining the appraisal value of long-term equity investment through multiplying the value of total shareholders' equity after the overall evaluation of the investee by the shareholding ratio. As for the overall evaluation, the method adopted for the investee is the same as that for the parent company, i.e., the asset-based method, and the basic formula is: the total value of shareholders' equity = the total value of the company's assets - the total value of the company's liabilities.

The book value of long-term equity investments is accounted for the investment cost. After the enterprise makes provision for impairment, the net amount is zero. The investment cost is a historical act and does not determine the current value of the investee. The investment cost is not taken into account during the assessment. Instead, the value of the investee is determined by evaluating the value of assets and liabilities owned by the investee. After the assessment, the appraisal value of the investee through separate evaluation is greater than the net book value after deducting the impairment provision, and therefore the appreciation incurred.

**(2) No controlling rights, equity liquidity are considered**

The entire equity interests of Xin Jin Rong determined under this Assessment are the market value on the base date of assessment, without consideration of the impact controlling rights, equity liquidity and other factors having on the equity value.

**XI. STATEMENTS ON SPECIAL ITEMS**

This assessment report result only reflects the market value of the assessed objects determined consistent with economic principles according to the assessment purpose, value types, assessment basis and assumptions under this Assessment. We opine that the following matters as discovered by us during the Assessment may have an impact on the assessment result, and however we are now unable to evaluate the degree to which such matters shall have an impact on the assessment result. We hereby remind the users and readers of the Report to pay special attention.

(1) **Impact of business activities on the assessment results**

No business activities are identified under this Assessment that may have a material impact on the assessment result.

(2) **Material contracts, pledge (securities)**

No material contracts, pledge (securities) by the assessed enterprise are identified during this Assessment.

(3) **Property ownership defects**

For part of machineries and equipment included in the assessment scope, the assessed entity fails to provide purchase contracts and invoices and other property ownership documents because of long time lapsed after their purchase; the transformer production plant located at No. 9, Lao Bao Bei Li, Linghe District uses a land under a leasehold, and the house ownership for the building has been obtained, but no land use right certificate is obtained.

The assessors have paid necessary attention to the legal ownership of the assessed objects, but do not offer any guarantee of any kind regarding the legal ownership of the assessed objects.

(4) **Material litigations, pending matters, legal disputes and other uncertainties**

As of the base date of the Assessment, there are pending matters respecting Xin Jin Rong as set out below:

1. An application filed by Liaoning Limeng State-owned Assets Operation Co., Ltd (hereinafter referred to as the “**Liming**”) for the assistance by Xin Jin Rong for the enforcement of a pending judgment.

In the year 2004, Shenyang High-voltage Switches Co., Ltd obtained a loan of RMB4 million from China Everbright Bank, Shenyang Heping Sub-branch (hereinafter referred to as “**Everbright Bank**”), for which Jinzhou Power Capacitor Co., Ltd provided a security on a joint-liability basis. The civil judgment numbered (2004) SZMSHCZ No. 372 by Shenyang Intermediate People’s Court ruled that New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd shall be jointly liable for the repayment of the loan in question. Since 10 March 2005, Shenyang Intermediate People’s Court has been issuing Enforcement Assistance Order to Xin Jin Rong for a number of times, ordering it to pay the rental of RMB 4.2 million it owed to Jinzhou Power Capacitor Co., Ltd to the court, but New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd did not admit it owed any rental. Now such loan granted by Everbright Bank has been transferred to Limeng, and the court enforcing the Judgment rendered a civil judgment (2015) SZZCZD No. 3, ruling that Xin Jin Rong shall be liable to pay Limeng to the extent of the rental of RMB4.2 million. Xin Jin Rong is dissatisfied with such ruling, and appealed such ruling to Liaoning Higher People’s Court. The trial is now pending.



2. Dalian North Instrument Transformer Group Co., Ltd, Jinzhou Lijing Metal Products Co., Ltd, Jinzhou Yueqiang Wood Industry Co., Ltd filed against the Company a lawsuit at Dalian Pulandian District People's Court, Jinzhou Guta District People's Court, respectively, for the goods prices owed by the Company to them, requesting the Company to pay the goods prices in the aggregate amount of RMB776,294.29. The Company has received the Order to Produce Evidence served by Dalian Pulandian District People's Court and the Order to Respond to the Complaint served by Jinzhou Guta District People's Court after the date of balance sheets. As of the date this Report is issued, the above cases are pending trial. In addition, concurrently Dalian North Instrument Transformer Co., Ltd applied to the court to freeze the bank deposit of the Company in an amount of RMB200,000.

**(5) Major future issues that have impacts on this Assessment results**

The assessed entity entered into an obligation transfer agreement with Shenyang Kaiyi Electric Co., Ltd dated 26 August 2017, under which the obligations in an aggregate amount of RMB12,777,181.19 consisting of accounts receivable of an age of over 4 years and accounts receivable of an age of less than 4 years partly containing accounts receivable of an age of over 4 years and all interests accrued under the obligations for a transfer price of RMB3 million. Prior to the issue date of this Assessment Report, the transferee has paid the consideration. Impacts in the future have been taken into account during this Assessment, and a risk loss of RMB2,956,320.00 is deducted during the assessment of accounts receivable. We hereby remind you of that.

**(6) Constraints on the assessment procedures**

The assessors of this Assessment have not conducted the technical inspection of technical performance and parameters of each equipment on the base date of the Assessment. The certified assessors made their judgment after onsite investigation under the presumption that all technical documents and operation documents furnished by the property owners are true and valid.

**(7) Other matters requiring explanation**

1. A large number of bad debts, doubtful accounts exist in the assessed entity and the entities it holds long-term equity investments, and such debts have a relatively long account age, the possibility of their recovery is determined after a comprehensive analysis of information furnished by the assessed entity. The assessment result shall not serve as a guarantee of recovery of accounts and the amounts recovered.
2. The assessed entity holds 3 pieces of intangible properties, including trademarks and patents. Owing to the fact that turnover of the entity has been substantially decreasing in recent years and it has sustained material losses on a continuous basis, and encountered difficulties in business operation, and therefore the value of such 3 pieces of intangible assets are difficult to be reflected by the operation income of the entity. Hence, no assessment was carried out separately for such properties during this Assessment, and the net asset value included in the assessment result has not contained the value of such 3 pieces of intangible assets. However, the incalculability of such value does not infer that they are of no value, and we remind users of this Assessment Report to pay special attention to the impact such matter may have on the assessment result.

**XII. LIMITATION ON USE OF THIS ASSESSMENT REPORT**

1. This Assessment Report shall only be used for the purpose and use set forth herein.
2. This Report shall only be used by the users set forth herein.
3. None of this Assessment Report or any part hereof may be copied, quoted or published in a public medium without the consent and approval of this assessment agency of the contents, unless otherwise provided in any applicable law, regulation or as agreed between the parties.
4. This Assessment Report shall only be used after it is signed by the assessors and sealed by the assessment agency.
5. The assessment result set forth herein shall only be effective regarding the business activities described in this Report, and the valid term of this Report shall commence on 21 July 2017 until 30 July 2018. The assessment result is only effective as of the base date of the Assessment set forth in the Report. The assessment report users shall reasonably determine the use period based on the asset conditions and market changes after the base date of the assessment. Generally, the Assessment Report shall only be relied upon where the base date of assessment is less than one year from the business activities.

**XIII. DATE OF ASSESSMENT REPORT**

The assessors of our Company, Xie Yi and Nie Zhuqing, have prepared the professional opinion dated 14 September 2017, and have executed this Assessment Report.

There are a number of annexes attached to this Report, which shall be an integral part of this Report.

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Shenzhen Pengxin Appraisal Limited

Legal representative:

Shenzhen, China

Assessor:

14 September 2017

Assessor:

### Annex to the Assessment Report

Annex 1: Summary and Breakdown of Assets Assessment Results

Annex 2: The details of long-term equity investments:



No.	Investee	Shareholding ratio (%)	Book value	Appraised value	Value-added ratio (%)
1	Jinzhou Jinrong Electric Co., Ltd. (锦州锦容电器有限责 任公司)	69.75%	8,112,861.15	493,534.76	-93.92
	Total		8,112,861.15	493,534.76	-93.92
Less: Provision for impairment of long-term equity investments			8,112,861.15	-	-100.00
	Net		-	493,534.76	

## Remarks for Valuation of Intangible Assets of Target Company New Northeast Electric (Jinzhou) Power Capacitors Co. Ltd.

### I. DESCRIPTION OF THE INTANGIBLE ASSETS

As of the base date of assessment (i.e. 31 July 2017), there are three items of intangible assets (including two trademarks and one patented technology) owned by New Northeast Electric (Jinzhou) Power Capacitors Co. Ltd., as shown in the following table:

#### 1. Trademarks

Trademark	Trademark Name	Application Time	Registration Number	Type
	Xing Yue (Chinese characters)	July 1981	164842	9-Scientific instrument
	JZMC Jin Qiu (Chinese characters)	June 1991	595326	9-Scientific instrument

#### 2. Patented technology

Name	Patent Type	Date of Application	Application Number	Published Application Number	Date of Issue
Special copper-aluminum transition cable clamp for electric capacitor units	Utility model	24 August 2016	CN201620932947.0	CN205900828U	18 January 2017

**APPENDIX IV      REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY  
NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD**

**II.      REMARKS FOR VALUATION**

**1.      Remarks for valuation of Xing Yue trademark**

Currently, the products under Xing Yue trademark are parallel capacitors and complete devices. Before 2015, the production and operation status was relatively good, but the production and sales have dropped sharply since 2016, as detailed below:

Year	2013	2014	2015	2016	2017
Revenue from parallel capacitor and complete devices (RMB)	102,298,229.30	105,807,683.28	94,939,720.16	24,729,603.40	1,187,724.43
Sales volume (Kvar)	2,585,429.60	3,479,140.70	4,010,799.00	1,435,796.59	107,955.00
Average unit price (RMB/Kvar)	39.57	30.41	23.67	17.22	11.00
Total revenue	102,298,229.30	105,807,683.28	94,939,720.16	24,729,603.40	1,187,724.43

It is understood that the counterparty of this equity transaction has certain market resources and advantages in parallel capacitors and complete devices, which is expected to produce synergies. The output and sales volume of products will be improved to some extent. Based on the above considerations, we conduct future earnings forecast and valuation regarding this intangible asset, as detailed in the following table:

Year	First year	Second year	Third year	Fourth year	Fifth year	Stable period
Revenue from parallel capacitor and complete devices (RMB)	15,000,000.00	32,000,000.00	50,000,000.00	65,000,000.00	85,000,000.00	112,000,000.00
Sales volume (Kvar)	1,000,000.00	2,000,000.00	3,000,000.00	4,000,000.00	5,000,000.00	5,800,000.00
Average unit price (RMB/Kvar)	15.00	16.00	16.67	16.25	17.00	19.31
Total revenue	15,000,000.00	32,000,000.00	50,000,000.00	65,000,000.00	85,000,000.00	112,000,000.00
Contribution rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Contribution	150,000.00	320,000.00	500,000.00	650,000.00	850,000.00	1,120,000.00
Discount rate	10%	10%	10%	10%	10%	10%
Year(s) of discount	1.00	2.00	3.00	4.00	5.00	
Discount factor	0.9091	0.8264	0.7513	0.6830	0.6209	6.209
Present value	136,363.64	264,462.81	375,657.40	443,958.75	527,783.12	6,954,318.82
<b>Total present value (valuation, RMB)</b>						<b>8,702,544.54</b>

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**APPENDIX IV      REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY  
NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD**

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Notes:

1. As the trademark has an indefinite useful life, the duration of return for the valuation is calculated based on the indefinite term;
2. The income calculation scope covers the products using the trademark;
3. The products using the Xing Yue trademark are parallel capacitor and complete devices. The contribution rate of the trademark to the products' sales revenue is 10%, and the average net profit margin in the parallel capacitor and complete device market is 10%. Therefore, the trademark's contribution rate to the valuation is  $10\% * 10\% = 1\%$ ;
4. The discount rate is estimated at 10% and the corresponding payback period is approximately 10 years.

**2. Remarks for valuation of Jin Qiu trademark**

Currently, the products under Jin Qiu trademark are low-voltage metallised film capacitors. Before 2015, the production and operation status was relatively good, but the production and sales have dropped sharply since 2016, as detailed below:

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenue from low-voltage metallised film capacitors (RMB)	5,845,216.15	8,020,557.76	6,805,387.76	4,000,449.96	883,112.79
Sales volume (Kvar)	712,756.30	892,285.14	864,955.84	604,193.50	83,442.40
Average unit price (RMB/Kvar)	8.20	8.99	7.87	6.62	10.58
<b>Total revenue</b>	<b>5,845,216.15</b>	<b>8,020,557.76</b>	<b>6,805,387.76</b>	<b>4,000,449.96</b>	<b>883,112.79</b>

It is understood that the counterparty of this equity transaction has certain market resources and advantages in low-voltage metallised film capacitors, which is expected to produce synergies. The output and sales volume of products will be improved to some extent. Based on the above considerations, we conduct future earnings forecast and valuation regarding this intangible asset, as detailed in the following table:



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**APPENDIX IV            REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY  
NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD**

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Year	First year	Second year	Third year	Fourth year	Fifth year	Stable period
Revenue from low-voltage metallised film capacitors (RMB)	2,000,000.00	4,000,000.00	6,000,000.00	7,000,000.00	8,000,000.00	8,000,000.00
Sales volume (Kvar)	210,000.00	420,000.00	660,000.00	770,000.00	880,000.00	880,000.00
Average unit price (RMB/Kvar)	9.52	9.52	9.09	9.09	9.09	9.09
Total revenue	2,000,000.00	4,000,000.00	6,000,000.00	7,000,000.00	8,000,000.00	8,000,000.00
Contribution rate	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Contribution	24,000.000	48,000.000	72,000.000	84,000.000	96,000.000	96,000.000
Discount rate	10%	10%	10%	10%	10%	10%
Year(s) of discount	1.00	2.00	3.00	4.00	5.00	
Discount factor	0.9091	0.8264	0.7513	0.6830	0.6209	6.209
Present value	21,818.18	39,669.42	54,094.67	57,373.13	59,608.45	596,084.47
<b>Total present value (valuation, RMB)</b>			<b>828,648.32</b>			

**Notes:**

1. As the trademark has an indefinite useful life, the duration of return for the valuation is calculated based on the indefinite term;
2. The income calculation scope covers the products using the trademark;
3. The products using the Jin Qiu trademark are low-voltage metallised film capacitors. The contribution rate of the trademark to the products' sales revenue is 20%, and the average net profit margin in the low-voltage metallised film capacitor market is 6%. Therefore, the trademark's contribution rate is  $20\% * 6\% = 1.2\%$ ;
4. The discount rate is estimated at 10% and the corresponding payback period is approximately 10 years.

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**APPENDIX IV      REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY  
NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD**

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**3.      Remarks for valuation of the cable clamp patent**

Currently, the products under the cable clamp patent are parallel capacitor devices. Before 2015, the production and operation status was relatively good, but the production and sales have dropped sharply since 2016, as detailed below:

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenue from 6000~8000 Kvar					
parallel capacitor devices (RMB)	18,082,757.06	7,751,841.90	10,695,884.86	4,839,654.69	0.00
Sales volume (Kvar)	558,918.00	243,934.00	367,734.00	226,452.00	0.00
Average unit price (RMB/Kvar)	32.35	31.78		29.09	21.37
<b>Total revenue</b>	<b>18,082,757.06</b>	<b>7,751,841.90</b>	<b>10,695,884.86</b>	<b>4,839,654.69</b>	<b>0.00</b>

It is understood that the counterparty of this equity transaction has certain market resources and advantages in parallel capacitors and complete devices, which is expected to produce synergies. The output and sales volume of products will be improved to some extent. Based on the above considerations, we conduct future earnings forecast and valuation regarding this intangible asset, as detailed in the following table:

<b>Year</b>	<b>First year</b>	<b>Second year</b>	<b>Third year</b>	<b>Fourth year</b>	<b>Fifth year</b>
Revenue from 6000~8000 Kvar parallel					
capacitor devices (RMB)	3,000,000.00	6,000,000.00	9,000,000.00	16,000,000.00	20,000,000.00
Sales volume (Kvar)	150,000.00	300,000.00	450,000.00	800,000.00	1,000,000.00
Average unit price (RMB/Kvar)	20.00	20.00	20.00	20.00	20.00
Total revenue	3,000,000.00	6,000,000.00	9,000,000.00	16,000,000.00	20,000,000.00
Contribution rate	0.045%	0.045%	0.045%	0.045%	0.045%
Contribution	1,350,000	2,700,000	4,050,000	7,200,000	9,000,000
Discount rate	15%	15%	15%	15%	15%
Year(s) of discount	1.00	2.00	3.00	4.00	5.00
Discount factor	0.8696	0.7561	0.6575	0.5718	0.4972
Present value	1,173.91	2,041.59	2,662.94	4,116.62	4,474.59

**APPENDIX IV      REMARKS FOR VALUATION OF INTANGIBLE ASSETS OF TARGET COMPANY  
NEW NORTHEAST ELECTRIC (JINZHOU) POWER CAPACITORS CO. LTD**

Year	Sixth year	Seventh year	Eighth year	Ninth year
Revenue from 6000~8000 Kvar parallel capacitor devices (RMB)	20,000,000.00	20,000,000.00	20,000,000.00	20,000,000.00
Sales volume (Kvar)	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Average unit price (RMB/Kvar)	20.00	20.00	20.00	20.00
Total revenue	20,000,000.00	20,000,000.00	20,000,000.00	20,000,000.00
Contribution rate	0.045%	0.05%	0.05%	0.05%
Contribution	9,000.000	9,000.000	9,000.000	9,000.000
Discount rate	15%	15%	15%	15%
Year(s) of discount	6.00	7.00	8.00	8.64
Discount factor	0.4323	0.3759	0.3269	0.2989
<b>Present value</b>	<b>3,890.95</b>	<b>3,383.43</b>	<b>2,942.12</b>	<b>2,690.38</b>
<b>Total present value (valuation, RMB)</b>		<b>27,376.53</b>		

Notes:

- The term of protection of utility model patents is 10 years from the date of filing. The application date of the patent is 24 August 2016, and therefore the end of duration of return is 23 August 2026;
- The income calculation scope covers the products using the trademark;
- The cable clamp technology is applied to 6000~8000 Kvar parallel capacitor devices. The cost of cable clamp accounts for 0.3% of total costs, and the average net profit margin in the parallel capacitor device market is 15%. Therefore, the patent's contribution rate is  $0.3\% \times 15\% = 0.045\%$ ;
- The discount rate is estimated at 15% and the corresponding payback period is approximately 6.7 years.

In summary, the valuation results of the three intangible assets are set out in the table below:

No.	Name	Valuation result (RMB)
1	Xing Yue trademark	8,702,544.54
2	Jin Qiu trademark	828,648.32
3	Cable clamp patent	27,376.53
<b>Total</b>		<b>9,558,569.38</b>

**III. ANALYSIS ON VALUATION CONCLUSION**

The total estimated value of the three intangible assets owned by New Northeast Electric (Jinzhou) Power Capacitors Co. Ltd. is approximately RMB 9,558,56.38.

The premium rate of the equity transaction is 20.33%, and the premium is RMB22,806,900, more than the total amount of the three intangible assets. Therefore, the premium of the equity transaction was enough to reflect the value of the intangible assets.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*The Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, 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 notice.*



(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 0042)

### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN:** that the extraordinary general meeting (the “EGM”) of of Northeast Electric Development Company Limited (the “Company”) will be held at the Conference Room, Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC at 10:00 a.m. on 25 May 2018 for the purpose of considering and, if thought fit, passing the following resolutions:

#### AS SPECIAL RESOLUTIONS

**“THAT:**

1. the Proposal on the Scheme of the Significant Asset Sale of the Company\* (《關於公司重大資產出售交易方案的議案》) (copy of which have been produced to the EGM marked “A” and signed by the chairman of the meeting for the purpose of identification and the transactions contemplated thereunder) required under PRC laws in connection with the equity transfer agreement dated 17 September 2017 (the “**Equity Transfer Agreement**”) entered into between 瀋陽凱毅電氣有限公司 (Shenyang Kaiyi Electric Limited) and Great Talent Technology Ltd. (高才科技有限公司), which are wholly-owned subsidiaries of the Company and 江蘇安靠光熱發電系統科技有限公司 (Jiangsu Ankura Solar Power System Technology Limited\*) (copy of which have been produced to the EGM marked “B” and signed by the chairman of the meeting for the purpose of identification and the transactions contemplated thereunder), be and is hereby approved;
2. the Proposal on Equity Transfer Agreement Entered into with the Purchaser\* (《與承讓方簽署的<股權轉讓協議>議案》) required under PRC laws in connection with the Equity Transfer Agreement (copy of which have been produced to the EGM marked “C” and signed by the chairman of the meeting for the purpose of identification and the transactions contemplated thereunder) be and is hereby approved;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### AS ORDINARY RESOLUTIONS

“THAT:

3. the terms and conditions of the Equity Transfer Agreement (which shall include the following proposals required under PRC laws in connection with the Equity Transfer Agreement, copy of which have been produced to the EGM marked “D” to “H” and signed by the chairman of the meeting for the purpose of identification and the transactions contemplated thereunder) be and are hereby approved:-
  - (a) Proposal on Significant Asset Sale of the Company Complying with the Substantive Conditions Stipulated by Relevant Laws and Regulations\* (《關於公司本次重大資產出售交易符合相關法律法規規定的實質條件的議案》);
  - (b) Proposal on the Report for the Significant Asset Sale (Revision) and its Summary of Northeast Electric Development Co., Ltd.\* (《關於<東北電氣發展股份有限公司重大資產出售報告書(修訂稿)>及其摘要的議案》);
  - (c) Proposal on Significant Asset Sale Complying with Article 4 of Provisions on Issues Concerning Regulating the Material Asset Reorganisation of Listed Companies\* (《關於本次重大資產出售交易符合<關於規範上市公司重大資產重組若干問題的規定>第四條規定的議案》);
  - (d) Proposal on Significant Asset Sale Not Constituting a Connected Transaction\* (《關於本次重大資產出售交易不構成關連交易的議案》);
  - (e) Proposal on Significant Asset Sale Not Constituting a Reverse Takeover under Article 13 of Administrative Measures for Material Asset Reorganisation of Listed Companies\* (《關於本次重大資產出售交易不構成<上市公司重大資產重組管理辦法>第十三條規定的借殼上市的議案》);
4. the directors of the Company (the “Directors”) be and are hereby authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering of the Equity Transfer Agreement, and the Directors be and are hereby authorised to do all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the transactions pursuant to the Equity Transfer Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Equity Transfer Agreement as they may in their discretion consider to be desirable and in the interest of the Company and that the following proposal required under PRC laws in connection with the Equity Transfer Agreement (copy of which has been produced to the EGM marked “I” and signed by the chairman of the meeting for the purpose of identification and the transactions contemplated thereunder) be and are hereby approved:-

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (1) Proposal on Authorising the Board of Directors to Sign and Handle Relevant Matters of Equity Transfer Agreement with Absolute Discretion\* (《關於授權董事會簽署並全權辦理執行股權轉讓協議相關事項的議案》)”

By order of the Board  
**Northeast Electric Development Co., Ltd.**  
**Liu Daoqi**  
*Chairman*

Changzhou, Jiangsu Province, the People's Republic of China  
10 April 2018

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 16 May 2018 is entitled to attend the EGM.
- (2) In order to confirm the list of holder of H Shares of the Company who are entitled to attend the EGM, the register of shareholders of the Company will be closed from 26 April 2018 to 25 May 2018 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register of the Company by the close of business on 25 April 2018 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, 21th Floor, 148 Electric Road, North Point Hong Kong not later than 4:30 p.m. on 25 April 2018.
- (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 30 April 2018.
- (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 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC  
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