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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 you should take, 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 the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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**天津發展控股有限公司**

**TIANJIN DEVELOPMENT HOLDINGS LIMITED**

*(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)*  
(Stock code: 882)

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF APPROXIMATELY 90.9421% INTEREST IN  
TIANJIN TEDA TSINLIEN HEAT & POWER CO., LTD.  
AND  
RE-ELECTION OF THE RETIRING DIRECTOR**

**Financial Adviser to the Company**



**Oriental Patron Asia Limited**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders  
in relation to the Acquisition**



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A letter from the Board is set out on pages 7 to 24 of this circular. A letter from the Independent Board Committee is set out on page 25 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 49 of this circular.

A notice convening the EGM to be held at Salon II, Ballroom Level, The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong at 3:00 p.m. on 23 February 2006 is set out on pages 60 to 61 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of the Company, Tengis Limited at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

4 February 2006

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## DEFINITIONS

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

“Acquisition”	the conditional acquisition of the Sale Interest by the Company or its designated wholly-owned subsidiary pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 10 January 2006 entered into among the Company, Tsinlien and Progress City in respect of the Acquisition
“Announcement”	the announcement issued by the Company dated 13 January 2006 in relation to the Acquisition
“Assets Swap”	the swap of the Factory owned by the Heat Company with the Steam Transmission Facilities owned by TEDA Heat pursuant to the Assets Swap Agreement
“Assets Swap Agreement”	an assets swap agreement dated 12 October 2005 entered into between the Heat Company and TEDA Heat
“associates”	has the meaning ascribed to it under the Listing Rules
“Attributable NAV”	the attributable unaudited net asset value of the Heat Company as at 31 December 2004
“Attributable Profit”	the attributable unaudited net profit after taxation of the Heat Company for the year ended 31 December 2004, being adjusted for a one-off provision against deposits with two financial institution
“Baron” or “Independent Financial Adviser”	Baron Capital Limited, a licensed corporation to perform type 1 and type 6 regulated activities under the SFO, which is not a connected person of the Company, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
“Business Day”	a day on which banks are normally open for business in Hong Kong (excluding Saturdays, Sundays and public holidays)
“Code”	the Code on Corporate Governance Practices of the Listing Rules

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## DEFINITIONS

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“Company”	Tianjin Development Holdings Limited (天津發展控股有限公司), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Comparables”	the nine companies listed in Hong Kong, Shenzhen and Shanghai, being analysed by the Company
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Completion Accounts”	the accounts of the Heat Company as at the Completion Date prepared in accordance with the applicable accounting principles in Hong Kong
“Completion Date”	the fifth Business Day immediately following the date of fulfillment or waiver (if applicable) of all the Conditions, or such other date as the parties to the Agreement shall agree in writing
“Completion Date NAV”	the net assets value of the Heat Company as at the Completion Date as shown in the Completion Accounts
“Condition(s)”	the condition(s) precedent to Completion, as more particularly set out under the section headed “Conditions” of the Letter from the Board in this circular
“connected person”	a director, chief executive and substantial shareholder of the Company or any of its subsidiaries or any associate (within the meaning ascribed thereto in the Listing Rules) of any of them
“Consideration”	HK\$380 million, the consideration payable by the Company to Tsinlien for the Acquisition, to be satisfied in the manner set out under the section headed “Consideration” of the Letter from the Board in this circular
“Consideration Shares”	a total of 20 million new Shares to be issued and allotted at the Issue Price by the Company to Tsinlien or its designated wholly-owned subsidiary and credited as fully paid
“Cost-based Supplemental Income”	the full amount of any positive difference between the purchase costs and the selling price of the steam sold by the Heat Company

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## DEFINITIONS

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“Development Zone”	天津經濟技術開發區 (Tianjin Economic-Technological Development Zone in Municipality of Tianjin of the PRC)
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened at which ordinary resolutions will be proposed to approve, if thought fit, (i) the Agreement and all the transactions contemplated thereunder; and (ii) re-election of Mr. Bai Zhisheng as an executive Director
“Electricity Company”	天津泰達津聯電力有限公司 (Tianjin TEDA Tsinlien Electric Power Company Limited), a Sino-foreign equity joint venture established in the PRC and owned as to approximately 94.3571% and approximately 5.6429% by the Company and Tianjin TEDA respectively
“Factory”	all of the steam production factory and related production facilities owned by the Heat Company prior to the Assets Swap
“Finance Bureau”	天津經濟技術開發區財政局 (Finance Bureau of the Development Zone)
“GDP”	gross domestic product
“Group”	the Company and its subsidiaries
“Heat Company”	天津泰達津聯熱電有限公司 (Tianjin TEDA Tsinlien Heat & Power Co., Ltd), a company incorporated in the PRC with limited liability and owned as to approximately 90.9421% and approximately 9.0579% by Progress City and Tianjin TEDA respectively prior to the Completion
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance, Chapter 32, Laws of Hong Kong
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan, to advise the Independent Shareholders on the Agreement and all the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders other than Tsinlien and its associates
“Independent Third Party”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, a party who is independent of and not connected with the directors, chief executive or substantial shareholder of the Company and any of its subsidiaries or any associate of any of them
“Issue Price”	HK\$3.745 per Consideration Share
“Last Trading Day”	10 January 2006, being the last trading day pending the issue of the Announcement
“Latest Practicable Date”	2 February 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Leasing Agreement”	a leasing agreement dated 3 October 2003 entered into between the Heat Company and an Independent Third Party pursuant to which the Heat Company leased to an Independent Third Party the steam production plant
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	9 July 2006, being six months from the date of the Agreement, or such other date as the parties to the Agreement shall agree in writing
“NAV Guarantee”	the guarantee that the Completion Date NAV will not be less than the NAV 2004
“NAV 2004”	the audited net assets value of the Heat Company as at 31 December 2004 determined in accordance with the applicable accounting principles in Hong Kong
“No Material Adverse Change Undertaking”	the undertaking that there will be no material adverse change with respect to the business operation, assets and financial positions of the Heat Company since 31 December 2004 up to and including the Completion Date
“P/BV”	price-to-book ratio
“P/E”	price-to-earning ratio
“percentage ratios”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“Progress City”	Progress City Group Limited, a company incorporated in the British Virgin Islands, and a wholly-owned subsidiary of Tsinlien
“Quantity-based Supplemental Income”	a quantity-based supplemental income to the Heat Company at a rate of RMB50 for every tonne of steam sold
“Rental Agreement”	a rental agreement dated 12 October 2005 entered into between the Heat Company and TEDA Heat pursuant to which the Heat Company leased all the remaining established steam transmission facilities still owned by TEDA Heat after the Assets Swap
“Sale Interest”	the equity interest in Heat Company representing approximately 90.9421% of its entire equity interest, which shall be acquired by the Company or its designated wholly-owned subsidiary pursuant to the Agreement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“Steam Transmission Facilities”	certain steam transmission pipelines and related facilities including processing stations and equipments owned by TEDA Heat prior to the Assets Swap
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TEDA Heat”	天津泰達熱電公司 (Tianjin TEDA Heat & Power Company Limited), a state-owned company incorporated in the PRC

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## DEFINITIONS

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“Tianjin TEDA”	天津泰達投資控股有限公司 (Tianjin TEDA Investment Holdings Limited), a state-owned company incorporated in the PRC with limited liability, an Independent Third Party, which is the joint venture partner of the Company in respect of the Electricity Company and Water Company before and after Completion and will also become a joint venture partner of the Company in respect of the Heat Company after Completion
“Tsinlien”	Tsinlien Group Company Limited (津聯集團有限公司), a company incorporated in Hong Kong with limited liability and is the controlling shareholder, holding approximately 63.8% of the entire issued share capital of the Company as at the Latest Practicable Date
“Water Company”	天津泰達津聯自來水有限公司 (Tianjin TEDA Tsinlien Water Supply Company Limited), a Sino-foreign equity joint venture established in the PRC and owned as to approximately 91.4113% and approximately 8.5887% by the Company and Tianjin TEDA respectively
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*The English name of the PRC established companies in this circular is for identification purposes only. In case of inconsistency, the Chinese names prevail.*

*In this circular, RMB and USD have been converted into HK\$ at the rate of RMB1.04 = HK\$1 and USD1 = HK\$7.8 respectively for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.*

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## LETTER FROM THE BOARD

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天津發展控股有限公司  
TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)  
(Stock code: 882)

*Executive Directors*

Mr. Wang Guanghao (*Chairman*)  
Dr. Ren Xuefeng (*Vice Chairman*)  
Mr. Yu Rumin (*Vice Chairman*)  
Dr. Zhang Hongru  
Mr. Nie Jiansheng  
Dr. Wang Jiandong  
Mr. Bai Zhisheng  
Mr. Yang Liheng  
Mr. Sun Zengyin  
Dr. Pang Jinhua

*Registered office*

Suites 07-13  
36th Floor  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

*Non-Executive Directors*

Mr. Ye Disheng  
Mr. Cheung Wing Yui

*Independent Non-Executive Directors*

Mr. Kwong Che Keung, Gordon  
Mr. Lau Wai Kit  
Dr. Cheng Hon Kwan

4 February 2006

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF APPROXIMATELY 90.9421% INTEREST IN  
TIANJIN TEDA TSINLIEN HEAT & POWER CO., LTD.  
AND  
RE-ELECTION OF THE RETIRING DIRECTOR**

**INTRODUCTION**

**The Acquisition**

On 13 January 2006, the Company announced that it had entered into a conditional sale and purchase agreement dated 10 January 2006 with Tsinlien and Progress City pursuant to which the Company conditionally agreed to acquire, or procure its designated wholly-owned subsidiary to acquire, Progress City (a wholly-owned subsidiary of Tsinlien) conditionally agreed to sell, and Tsinlien conditionally agreed to procure Progress City to sell, the Sale

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## LETTER FROM THE BOARD

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Interest at a consideration of HK\$380 million, which shall be satisfied as to HK\$305.1 million by cash and HK\$74.9 million by issuance and allotment of 20 million Consideration Shares at the Issue Price credited as fully paid. The Issue Price was determined based on the average daily closing price of the Shares on the last ten trading days before the date of the Agreement as quoted on the daily quotation sheet of the Stock Exchange.

The Consideration Shares represent approximately 2.20% of the existing issued share capital of the Company and approximately 2.15% of the issued share capital of the Company as enlarged by the Consideration Shares. Upon Completion, the Acquisition will not result in a change of control of the Company.

Before Completion, the Heat Company is directly owned as to approximately 90.9421% by Progress City and approximately 9.0579% by Tianjin TEDA. After the Completion Date, Heat Company will be owned as to approximately 90.9421% by the Company and approximately 9.0579% by Tianjin TEDA. The Heat Company will then become a subsidiary of the Company and its accounts will be consolidated into the Group's accounts.

As the applicable percentage ratios exceed 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules. As at the Latest Practicable Date, as Tsinlien is the controlling shareholder, holding approximately 63.8% of the entire issued share capital of the Company, Tsinlien is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction under the Listing Rules and therefore is subject to the approval of the Independent Shareholders at the EGM by way of poll. Tsinlien and its associates will be required to abstain from voting in respect of the ordinary resolution to be proposed at the EGM for approving, if thought fit, the Acquisition and the transactions contemplated thereunder.

The Independent Board Committee has been formed to advise the Independent Shareholders and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder.

### **Re-election of the Retiring Director**

In accordance with paragraph A.4.2 of the Code, Mr. Bai Zhisheng, an executive Director who was appointed to fill a causal vacancy with effect from 1 January 2006, will be proposed to be re-elected at the EGM.

The purpose of this circular is (i) to provide you with further details of the Acquisition; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder; (iii) to set out the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder; (iv) to provide you with details relating to re-election of Mr. Bai Zhisheng as a Director; and (v) to give notice of the EGM at which ordinary

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## LETTER FROM THE BOARD

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resolutions will be proposed to approve, if thought fit, (a) the Agreement and the transactions contemplated thereunder; and (b) re-election of Mr. Bai Zhisheng as an executive Director.

### **THE AGREEMENT**

#### **Date**

10 January 2006

#### **Parties**

- (1) The Company, the party which has conditionally agreed to acquire the Sale Interest;
- (2) Tsinlien, the party which has conditionally agreed to procure Progress City to sell the Sale Interest to the Company or its designated wholly-owned subsidiary; and
- (3) Progress City, the wholly-owned subsidiary of Tsinlien and an investment holding company, the party which directly owns the Sale Interest and conditionally agreed to sell the Sale Interest to the Company or its designated wholly-owned subsidiary.

#### **Asset to be acquired**

Pursuant to the Agreement, the Company has conditionally agreed to acquire, Progress City has conditionally agreed to sell, and Tsinlien has conditionally agreed to procure Progress City to sell the Sale Interest at the Consideration. The Sale Interest represents approximately 90.9421% of the entire equity interest of the Heat Company which is currently held by Progress City.

#### **Consideration**

The consideration is HK\$380 million.

#### *Payment terms and method of Consideration*

The Consideration shall be satisfied by the Company as to:

- (i) HK\$305.1 million by cash funded by the internal resources of the Company on Completion Date; and
- (ii) HK\$74.9 million by issuance and allotment of 20 million Consideration Shares at the Issue Price credited as fully paid within seven Business Days from the Completion Date.

The Consideration will be fully paid within seven Business Days from the Completion Date.

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## LETTER FROM THE BOARD

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The Consideration Shares will be issued under general mandate of the Company granted by the Shareholders in the annual general meeting of the Company held on 27 May 2005. As at the Latest Practicable Date, the Company has sufficient general mandate left for the issue of the Consideration Shares. The Consideration Shares represent approximately 2.20% of the existing issued share capital of the Company and approximately 2.15% of the issued share capital of the Company as enlarged by the Consideration Shares. Upon Completion, the Acquisition will not result in a change of control of the Company.

The market value of the Consideration Shares, based on the closing price of HK\$4.0 per Share as quoted on the daily quotation sheet of the Stock Exchange on the Last Trading Day, is HK\$80 million. The Issue Price is determined by the Company based on the average closing price of HK\$3.745 per Share for the last ten trading days up to and including the day before the date of the Agreement (i.e. 9 January 2006). The Issue Price per Consideration Share represents:

- a discount of approximately 6.4% to the closing price of HK\$4.0 per Share as quoted on the daily quotation sheet of the Stock Exchange on the Last Trading Day;
- a discount of approximately 0.7% to the average closing price of HK\$3.77 per Share as quoted on the daily quotation sheet of the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- a discount of approximately 23.2% to the closing price of HK\$4.875 per Share as quoted on the daily quotation sheet of the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 34.4% to the net tangible asset value of HK\$5.71 per Share as at 30 June 2005.

As to the determination of the Issue Price, the Directors considered that the open market price of the Shares is a fair and reasonable basis as it is the fair value of the Shares perceived by the market. Although the Issue Price i.e. HK\$3.745 and the closing price of the Share on the Last Trading Day i.e. HK\$4 was at a discount of approximately 34.4% and 30% to the book value of the per share net tangible asset of the Company as at 30 June 2005 respectively, it is not uncommon to see the share prices of the companies listed on the Stock Exchange trading at discount to their respective per share net tangible assets. In fact, the daily closing prices of the Shares for the period from 30 June 2005 to the Latest Practicable Date were so far below the latest published per share net tangible assets of the Company as at 30 June 2005 i.e. HK\$5.71. Albeit the Consideration Shares are issued at a discount to the per share net tangible assets of the Company as at 30 June 2005, it was observed that the Consideration Shares are already issued at a price close to the 52-week high of the closing price of the Share on 9 January 2006 i.e. the latest closing price available to the Board for considering the Issue Price) at HK\$3.9 as compared to the 52-week low at HK\$2.725, thus the discount of the Issue Price to the net tangible assets of Company as at 30 June 2005 is relatively low. Based on the above analysis, the Directors are of the view that the Issue Price is determined on a fair and reasonable basis and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Consideration Shares shall rank *pari passu* in all respects with the existing issued fully paid Shares, including the rights to receive in full all dividends and other distributions declared after the date of allotment of the Consideration Shares. An application has been made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

The Consideration was determined after arm's length negotiation between the Company and Tsinlien with reference to, amongst other things, (i) the unaudited net profit after taxation of approximately RMB31.49 million (equivalent to approximately HK\$30.28 million) of the Heat Company for the year ended 31 December 2004, being adjusted for a one-off provision against deposits of approximately RMB20 million with two financial institutions which had been taken over by the PRC government in year 2004; (ii) the unaudited net asset value of approximately RMB261.48 million (equivalent to approximately HK\$251.42 million) of the Heat Company as at 31 December 2004; (iii) the development of utility industry in the Development Zone; and (iv) the revenue prospects of the Heat Company.

The Company has analysed nine companies listed in Hong Kong, Shenzhen and Shanghai, which are principally engaged in the operation of heat and electricity, selected based on the criteria that (i) their operations are based in mainland China; (ii) they have similar business nature as the Heat Company; and (iii) the availability of their financial information to the public. Based on the above selection criteria, the Company has calculated the relevant multiples, being the P/E and the P/BV, of the Comparables based on their closing share prices quoted on the respective stock exchanges on 9 January 2006 (the date before the board meeting which approved the Acquisition) and the financial information contained in their latest published annual and interim reports.

Company name (Stock Code)	Principal business activities	P/E (times)	P/BV (times)
<b>Shanghai</b>			
Ningbo Thermal Power Co., Ltd. (600982.SH)	Engaged in the production of electric power and to provide consultation services to electric power companies. It also engaged in production of steaming, pipeline network and coal industry	25.90	1.96
Shenyang Jinshan Thermoelectric Co., Ltd. (600396.SH)	Supply of thermoelectricity generation and electric heating	24.72	2.48
Xinjiang Tianfu Thermoelectric Co., Ltd. (600509.SH)	Engaged in the production and supply of thermal power, hydro-electricity and electric power	18.36	1.60
Beijing Jingneng Thermal Power Co., Ltd. (600578.SH)	Development and operation of heat and electricity, the sale of heat, electricity and heating products	20.25	2.03

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## LETTER FROM THE BOARD

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<b>Company name (Stock Code)</b>	<b>Principal business activities</b>	<b>P/E (times)</b>	<b>P/BV (times)</b>
Shanghai Electric Power Company Limited (600021.SH)	Development and operation of heat and electricity	16.27	1.04
<b><i>Shenzhen</i></b>			
Shenzhen Nanshan Power Station Co., Ltd. (000037.SZ)	Engaged in electric power generation	7.69	2.00
<b><i>Hong Kong</i></b>			
Huadian Power International Corporation Limited – H Shares (1071.HK)	Generation and sale of electricity and heat	10.98	1.16
Datang International Power Generation Co., Ltd. – H Shares (991.HK)	Acquire, own and operate existing coal-fired power plants and to develop, construct, own and operate new power plants	13.58	1.75
China Resources Power Holdings Company Limited (836.HK)	Invest, develop, own and operate large coal-fired power plants in the more affluent regions in China	12.81	1.65
<b>Average</b>		<b>16.73</b>	<b>1.74</b>
<b>Maximum</b>		<b>25.90</b>	<b>2.48</b>
<b>Minimum</b>		<b>7.69</b>	<b>1.04</b>

*Sources:* Latest annual and interim reports of the respective Comparables which are available and the websites of the Shanghai Stock Exchange, Shenzhen Stock Exchange and the Stock Exchange.

*Notes:*

- (1) Price refers to the closing price of the respective Comparables with main operations in mainland China as quoted on their respective stock exchange on 9 January 2006 (the date before the board meeting which approved the Acquisition) and the total number of shares in issue according to the relevant company's latest published annual or interim report or announcement as the case may require.
- (2) Earnings refer to the net profit as per the latest published audited full year financial statements of the relevant company available.
- (3) NAV refers to the net asset value as per the latest published financial statements of the relevant company available.

As shown in the above table, the P/E of the Comparables ranged from approximately 7.69 times to 25.90 times, with an overall average of 16.73 times. In respect of the P/BV, it ranges from approximately 1.04 times to 2.48 times, with an overall average of 1.74 times.

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## LETTER FROM THE BOARD

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Based on the unaudited balance sheet of the Heat Company as at 31 December 2004, the attributable unaudited net assets value of the Heat Company as at 31 December 2004 is approximately RMB237.80 million (equivalent to HK\$228.65 million). The Consideration for the Acquisition represents approximately 1.66 times of the Attributable NAV. Such figure is within the range and is lower than the average P/BV of the Comparables.

Based on the unaudited profit and loss account of the Heat Company for the year ended 31 December 2004, the attributable unaudited net profit after taxation of the Heat Company is approximately RMB28.64 million (equivalent to approximately HK\$27.54 million), being adjusted for a one-off provision against deposits of approximately RMB20 million with two financial institutions which had been taken over by the PRC government in year 2004. The management of the Heat Company considers that it may not be able to get back the deposits, and thus, for prudence sake, make full provision for the deposits. The Consideration represents approximately 13.80 times of the Attributable Profit. Such figure is within the range and is lower than the average P/E of the Comparables.

The details in relation to the development of utility industry in the Development Zone and the revenue prospect of the Heat Company are disclosed in the section headed "Information of the Heat Company and the Development Zone" of this letter.

The Directors, after taking into account of the above analysis and that the nine companies selected by the Company applied to the P/E and P/BV analysis are representative and sufficient, concluded that the Consideration is fair and reasonable.

The due diligence work was being performed by the Company since mid 2005, focusing on the full year financial results of 2004 and the financial position as at the end of year 2004 of the Heat Company. The negotiation was made between the Company and Tsinlien based on the said due diligence work in the second half of year 2005. At that time, the 2005 full year financial information, including in particular the net profit figure, was not available. The Directors considered that actual profit for the financial year 2004 is a more reliable reference. In addition, the Directors considered that utility business is relatively stable during the years as utilities are necessities for both commercial and residential purposes within the Development Zone. Coupled with the economic growth in the Development Zone, it is expected that the performance would not fluctuate, hence the Directors considered that the determination with reference to, amongst others, the financial information of 2004 of the Heat Company is acceptable.

### **Non-disposal undertaking**

In connection with the convertible bonds due 2008 issued by a wholly-owned subsidiary of the Company on 19 December 2005 and convertible into the Shares, Tsinlien has undertaken that Tsinlien and its subsidiaries (which includes the designated wholly-owned subsidiary) shall not (inter alia) sell or otherwise dispose of the Consideration Shares for a period up to 90 days from 19 December 2005.

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## LETTER FROM THE BOARD

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### Conditions

Completion is conditional upon the fulfillment of, *inter alia*, the following Conditions:

- (1) the passing of an ordinary resolution approving the Agreement and all the transactions contemplated thereunder by the Independent Shareholders at the EGM;
- (2) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Consideration Shares;
- (3) the obtaining of all necessary consents, authorizations or other approvals from Tsinlien, Progress City, the Company and Tianjin TEDA in connection with the Agreement and all transactions contemplated thereunder (including but not limited to the Agreement, the new joint venture agreement and the new articles of association of the Heat Company);
- (4) Tianjin TEDA has agreed to waive its pre-emptive right to purchase the Sale Interest;
- (5) the transfer of the Sale Interest has been duly approved in the board meeting of the Heat Company;
- (6) the obtaining of approval of the Acquisition from the relevant regulatory authorities or as required by the relevant laws and regulations of the PRC which are required to be obtained prior to Completion Date;
- (7) the Company being satisfied with the results of a due diligence review, including but not limited to the business, financial, legal and accounting aspects, of the Heat Company; and
- (8) the receipt of a legal opinion issued by a firm of the PRC qualified legal advisers covering, amongst other things, the legality and the validity of the Acquisition and all the transactions contemplated thereunder (including but not limited to the legal status, the businesses operated by the Heat Company and the interest in the land held by the Heat Company).

The Company may in its absolute discretion waive the Conditions as mentioned in (7) and (8) above, at any time before the Longstop Date by notice in writing to Tsinlien. As at the Latest Practicable Date, the Directors do not intend to waive Conditions as mentioned in (7) and (8) above.

However, if any of the Conditions cannot be fulfilled due to changes of laws, rules or regulations, the Longstop Date will be extended to 9 months from the date of the Agreement (or such other date as the parties to the Agreement may agree in writing). If any of the Conditions have not been fulfilled or waived by the Company on or before the Longstop Date (or the date which may be extended under the aforesaid circumstance), the Agreement shall lapse and no party shall have any claim against the other save for claim (if any) in

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## LETTER FROM THE BOARD

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respect of any of the antecedent breaches of the Agreement. Tsinlien has undertaken to use its best endeavours to procure fulfillment of the Conditions on or before the Longstop Date (or the date which may be extended under the aforesaid circumstance).

If the Agreement is terminated pursuant to the above, the Company shall transfer the Sale Interest to Progress City, Tsinlien shall indemnify the Company against all the loss and damages suffered as a consequence.

### **Completion**

Completion shall take place on the fifth Business Day immediately following the date of fulfillment (or waiver, as appropriate) of all the Conditions.

### **Other principal terms of the Agreement**

#### *Guarantee of net assets value*

NAV Guarantee provides the Company with a guarantee against the loss due to the decrease in net assets value of the Heat Company during the period from 31 December 2004 to the Completion Date.

Tsinlien and Progress City guarantee to the Company in respect of the No Material Adverse Change Undertaking and the NAV Guarantee and with reference to the NAV 2004. Within 30 days from the Completion Date, the Company shall provide Tsinlien and Progress City with the Completion Accounts. If the Completion Date NAV as shown in the Completion Accounts is less than the NAV 2004, Tsinlien has to compensate the Company for the difference between these two figures in cash within 30 days from the date of provision of the Completion Accounts by the Company. However, if the Completion Date NAV is greater than the NAV 2004, no compensation is required from the Company to Tsinlien. The Company would publish an announcement in compliance with the requirements under Rule 14A.57 of the Listing Rules when the NAV Guarantee cannot be met. The Company will include the relevant details in its next published annual report and accounts if the NAV Guarantee cannot be met and the independent non-executive Directors will provide an opinion in the Company's annual report and accounts as to whether Tsinlien has fulfilled its obligation under the NAV Guarantee.

An independent reporting accountant appointed by the Company is already in the progress of preparing the audited accounts of the Heat Company for the year ended 31 December 2004. The figure for NAV 2004 is currently not available.

The Directors considered that making reference to the NAV 2004 for the determination of the compensation to be paid by Tsinlien is reasonable due to the followings: (i) the due diligence work was performed since mid 2005 which included the preparation of the financial statements of the Heat Company for the full year 2004 based on the Hong Kong generally accepted accounting principles; (ii) the NAV 2004 is one of the bases upon which the Consideration is determined; and (iii) the Directors considered that the utility business is relatively stable during the years as utilities are necessities for both commercial and residential purposes within the Development Zone.

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## LETTER FROM THE BOARD

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### *Company's right to sell the Sale Interest*

If (i) after the Completion Date, Tsinlien and Progress City have material breach in respect of the No Material Adverse Change Undertaking or any representations, warranties and undertakings given under the Agreement, or such representations, warranties and undertakings shall be untrue, inaccurate or misleading in any material respect; or (ii) all necessary consents, authorizations or other approvals in connection with the change of shareholders of the Heat Company after the Completion cannot be obtained within 6 months after the Completion Date, subject to compliance with the applicable laws and regulations in the PRC and Hong Kong (including but not limited to the Listing Rules), the Company has the right to request Tsinlien or Progress City in writing to purchase wholly in cash the Sale Interest at the price equals to 110% of the Consideration. Tsinlien and Progress City shall (i) bear all the expenses and liabilities incurred by the Company in the normal operation of the Heat Company after Completion; and (ii) pay the Company in cash all the interest payments of the loan and all relevant expenses payable by the Company in connection with the Acquisition.

The Agreement does not contain any restriction which applies to subsequent sale of the Sale Interest to any third parties.

### **INFORMATION OF THE HEAT COMPANY AND THE DEVELOPMENT ZONE**

#### **The Development and Prospects of the Development Zone**

The Development Zone, with a planned site area of 33 square kilometers, the place where the Heat Company is located at and operating in, has been growing rapidly in the past several years. In 2003, the development proposal of the west zone of the Development Zone was submitted to the relevant government officials for approval and was subsequently approved and the west zone will be provided with an abundant land resource for the Development Zone. The development of the Development Zone will accommodate more production plants and residential apartments which will further boost up the demand for utilities.

The Heat Company was benefited from the growth of the Development Zone. According to an article from the website of Tianjin Economic-Technological Development Area reported by Tianjin Economic-Technological Development Area Administrative Commission, from 1992 to 2004, the GDP of the Development Zone increased from approximately RMB1.3 billion (equivalent to approximately HK\$1.25 billion) to approximately RMB53 billion (equivalent to approximately HK\$50.96 billion), representing an increase of approximately 41 times; export increased from approximately USD160 million (equivalent to approximately HK\$1,248 million) to approximately USD11 billion (equivalent to approximately HK\$85.8 billion), representing an increase of approximately 69 times; and the total industrial output increased from approximately RMB3.2 billion (equivalent to approximately HK\$3.08 billion) to approximately RMB182 billion (equivalent to approximately HK\$175 billion), representing an increase of approximately 57 times. In 2004, the Development Zone achieved the fastest growth rate of industry in 8 years, with a total production output of over RMB50 billion (equivalent to approximately HK\$48.08 billion) and a fiscal revenue of RMB10 billion (equivalent to approximately HK\$9.62

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## LETTER FROM THE BOARD

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billion). The local total GDP, gross industrial output and export value grew at rates of 19.09%, 45.61% and 62.29% respectively. In addition, the Eleventh Five-Year Plan formulated by the Development Zone will help reinforce its competitive edge and innovation capabilities, promote the construction of modern manufacturing bases.

### **Outlook and Development of the Utility Industry in the Development Zone**

In addition, according to the 2004 annual report issued by the Development Zone, by the end of 2004, the Development Zone had accomplished an accumulative total investment in fixed assets of approximately RMB101.67 billion (equivalent to approximately HK\$97.76 billion), of which approximately RMB20.23 billion (equivalent to approximately HK\$19.45 billion) was invested in infrastructure. The supporting of infrastructure in terms of energy continues to improve. Projects such as those supporting the gas piping network of industrial estate were completed and the construction of those infrastructure projects of energy resources such as Phase II of No. 5 Heat Source Plant, No. 2 110KV Power Station, and Natural Gas Storage and Distribution Station was started. In 2004, the tap-water consumed in the Development Zone was 29.8408 million cubic meters with an increase of 19.9% compared with the previous year. The reclaimed water consumed was 1.0573 million cubic meters with an increase of 84.1% compared with the previous year. The power consumed was 1,229.0967 million kWh with an increase of 24% compared with the previous year. The natural gas consumed was 29.8087 million cubic meters with an increase of 98.4% compared with the previous year.

Moreover, according to the interim report of the Company for the six months ended 30 June 2005, the Electricity Company and the Water Company, which were acquired by the Company in November 2004 and are also located in the Development Zone, have contributed a net profit of approximately HK\$26.6 million and HK\$19.9 million respectively to the Group. In addition, the quantity of electricity and water sold increased by approximately 20% and 10% respectively over same period. This shows the growth potential of the utility industries in the Development Zone.

### **Revenue Prospect of the Heat Company**

In addition to the development of the utility industry as stated above, on a firm-wide basis, the number of customers of the Heat Company has increased from 5,435 in year 2000 to 29,200 in year 2005, the turnover (excluding governmental supplemental income, as stated under the section headed "Governmental Supplemental Income from the Finance Bureau" in this circular, for the year 2004) of the Heat Company has increased by a compound annual growth rate of approximately 11.84% from approximately RMB132.16 million (equivalent to approximately HK\$127.08 million) for year 2001 to approximately RMB184.88 million (equivalent to approximately HK\$177.77 million) for the year 2004. Moreover, the amount of steam sold by the Heat Company has increased by a compound annual growth rate of approximately 10.79% from approximately 1.25 million tonnes in year 2001 to approximately 1.70 million tonnes in year 2004.

Based on the aforesaid mentioned, the Directors are of the view that the anticipated continuous growth of the Development Zone can bring beneficial effects to the utility companies, including the Heat Company.

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## LETTER FROM THE BOARD

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### **Background of the Heat Company**

Heat Company is a Sino-foreign equity joint venture enterprise incorporated in the PRC on 5 July 2000. The total registered capital of the Heat Company was approximately RMB128.06 million (equivalent to approximately HK\$123.13 million) since its incorporation, which was then subsequently increased to approximately RMB262.95 million (equivalent to approximately HK\$252.84 million) on 28 July 2000, through the contribution of the increased capital by the then existing joint venture partners in proportion to their then respective percentage of registered equity interest.

Since the Heat Company was benefited from the growth of the Development Zone over the past years and supported by supplemental income from the Finance Bureau (details of which are stated under the section headed “Government Supplemental Income from the Finance Bureau” of this circular), the financial results of the Heat Company have substantially improved, as evidenced by the change from a net loss of approximately RMB4.76 million (equivalent to approximately HK\$4.58 million) in year 2003 to a net profit of approximately RMB13.0 million (equivalent to approximately HK\$12.5 million) (including a one-off provision of RMB20 million) in year 2004.

At inception, the principal activities of the Heat Company were to engage in production and distribution of steam for industrial uses and heating for commercial and residential purposes within the Development Zone.

On 3 October 2003, after entering into the Leasing Agreement, the principal business activities of the Heat Company have changed from a producer and distributor of steam to a sole distributor of steam within the Development Zone. Since then, the Heat Company ceased to be a producer of steam and is only engaged in the distribution of steam within the Development Zone and the provision of its related technical consultancy service.

Before entering into the Leasing Agreement, the steam production activity and the production plant was a material operation and asset of the Heat Company. However, after entering into the Leasing Agreement, the Heat Company became a distributor of steam in the Development Zone. Hence, the production plant has become immaterial to the operations of the Heat Company.

On 12 October 2005, the Heat Company, which intended to specialise in and focus more on its core business as a distributor of steam within the Development Zone, entered into the Assets Swap Agreement with TEDA Heat which is an Independent Third Party, pursuant to which the Heat Company agreed to swap the Factory for an equal value of approximately RMB130 million (equivalent to approximately HK\$125 million) for the Steam Transmission Facilities owned by TEDA Heat (i.e. the Assets Swap). The Heat Company has therefore secured the Steam Transmission Facilities and reduced reliance on other third parties’ facilities for steam distribution. The Heat Company became a distributor of steam after entering into the Leasing Agreement. The Assets Swap itself would not have any effect to the business operation of the Heat Company as a steam distributor and the Heat Company can be more focused on its core business.

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## LETTER FROM THE BOARD

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After the Assets Swap, there were some remaining steam transmission facilities still owned by TEDA Heat. Therefore, the Heat Company has entered into the Rental Agreement with TEDA Heat also on 12 October 2005 to lease from TEDA Heat all the remaining established steam transmission facilities still owned by TEDA Heat. The Rental Agreement is effective until 31 December 2010. After expiry of the Rental Agreement, the Heat Company has a pre-emptive right to further extend the Rental Agreement every 3 years.

### Principal activities of the Heat Company

The Heat Company, as a sole distributor of the steam, purchases steam from the steam production company and distributes through its transmission pipelines and processing stations to the end users in the Development Zone. It has currently made a connection to a total of approximately 300 kilometers steam transmission pipelines and more than 60 processing stations in the Development Zone, with a distribution capacity reaches 680 tonnes of steam per hour. The Heat Company derives its revenues principally from steam usage charges and technical consultancy service related to steam distribution for the end users of industrial uses, and heating for commercial and residential purposes in the Development Zone.

The Directors are of the view that with the growth of the Development Zone, the demand for utility would lead to a healthy growth of the Heat Company.

### Financial information of the Heat Company

The unaudited net asset value of Heat Company as at 31 December 2004 according to the Hong Kong generally accepted accounting principles was approximately RMB261.48 million (equivalent to approximately HK\$251.42 million) and that as at 30 September 2005 according to the PRC generally accepted accounting principles was approximately RMB291.19 million (equivalent to approximately HK\$280 million). There are no adjustments in relation to the difference in the Hong Kong and PRC generally accepted accounting principles. Thus, the unaudited net asset value of the Heat Company as at 31 December 2004 prepared according to the PRC and Hong Kong generally accepted accounting principles are the same. The table below sets out the unaudited profit/(loss) before and after taxation of the Heat Company (denominated in RMB and their respective HK\$ equivalent amount) for each of the two years ended 31 December 2004 and for the nine months ended 30 September 2005 respectively:

	For the year ended 31 December				For the nine months ended	
	2003		2004		30 September 2005	
	(RMB'000)	(HK\$'000)	(RMB'000)	(HK\$'000)	(RMB'000)	(HK\$'000)
Profit/(loss) before taxation	(4,725)	(4,543)	14,014	13,475	32,431	31,184
Profit/(loss) after taxation	(4,758)	(4,575)	12,992	12,492	29,717	28,574

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## LETTER FROM THE BOARD

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The above results of the Heat Company are the financial results before the Assets Swap. As the Assets Swap was carried out on 12 October 2005, the financial information of the Heat Company for the two years ended 31 December 2004 and the nine months ended 30 September 2005 above need not be adjusted. The Directors confirmed that there are no major changes to the financial results of the Heat Company after the Assets Swap which took place on 12 October 2005.

### **Financial effects of the Assets Swap**

As a result of the Assets Swap, the ownership of the Factory was transferred from the Heat Company to TEDA Heat and the Leasing Agreement had been terminated. Accordingly, the Heat Company no longer received a rental income of approximately RMB6.6 million (equivalent to approximately HK\$6.34 million) pursuant to the Leasing Agreement. Notwithstanding the fact that the Heat Company surrendered the rental income from leasing the Factory, the Heat Company still has to incur a rental expense of approximately RMB11.5 million (equivalent to approximately HK\$11.05 million) for the remaining steam transmission facilities after the Assets Swap. The rental income forgone and the rental expenses incurred by the Heat Company, which totaled approximately RMB18.1 million (equivalent to approximately HK\$17.4 million), can be offset by the savings in running cost of the Factory including staff cost and welfare, repair and maintenance and other fixed production overhead of approximately RMB20.6 million (equivalent to approximately HK\$19.83 million) and depreciation expenses of approximately RMB1.7 million (equivalent to approximately HK\$1.63 million) since the difference in the values of the assets swapped under the Assets Swap prepared by 天津市吉威有限責任會計師事務所 (Tianjin City Jiwei Certified Public Accountants Limited Liability Company), an independent valuer, as at 30 June 2005 is insignificant, their respective depreciation rates and thus their depreciation expenses are almost the same. Thus, the overall net effect of the Assets Swap to the Heat Company is a net savings of approximately RMB4.20 million (equivalent to approximately HK\$4.04 million). Therefore, there is no negative effect on the profitability of the Heat Company immediately after the Assets Swap.

### **Effects on the operation of the Heat Company**

The Heat Company has become the sole steam distributor in the Development Zone since the Leasing Agreement was entered into on 3 October 2003 (i.e. before the completion of the Assets Swap dated 12 October 2005), therefore there was no change in the operation of the Heat Company as a result of the Assets Swap.

### **Cost of investment in the Heat Company by the connected person of the Company**

At inception of the Heat Company, investment in its approximately 90.9421% interest was initially made by Tsinlien in June 2000 through the contribution of operating assets of production plants, equipments and machineries valued at approximately RMB116.46 million (equivalent to approximately HK\$111.98 million) and then subsequently increased by the contribution of additional operating assets valued at approximately RMB122.67 million (equivalent to approximately HK\$117.95 million) on 28 July 2000 to a total of approximately RMB239.13 million (equivalent to approximately HK\$229.93 million), which

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## LETTER FROM THE BOARD

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were transferred from the Development Zone at one time in November 1999 at zero consideration. Tsinlien's entire equity interest in the Heat Company was subsequently transferred to Progress City at a nominal value of HK\$1.00 on 30 December 2003.

Based on the growth of the Development Zone and the increase in turnover of the Heat Company, as stated under the sub-sections headed "Outlook and Development of the Utility Industry in the Development Zone" and "Revenue Prospect of the Heat Company" respectively of this letter, the value of the Heat Company has increased over the past years.

### **Government Supplemental Income from the Finance Bureau**

According to Clause 10 of the 天津經濟技術開發區鼓勵社會投資主體投資經營性基礎設施項目的暫行規定 (Temporary Rules of Encouraging the Investment in Operating Infrastructures by the Development Zone) promulgated by the Development Zone, the Development Zone will subsidise the investors or operators operating infrastructural products and services whose prices are regulated by the PRC government in order for reasonable operating benefits to be accrued to them. The selling price and the cost of the steam sold and purchased by the Heat Company respectively are both regulated by the PRC government.

In addition, the price of coal, the major raw material for the production of steam, has been increasing since the past two years. In order for reasonable operating benefits to be accrued to the steam producer, the PRC government allowed the selling price of steam quoted by the producer to increase accordingly. On the other hand, the PRC government has to ensure an attractive operating environment and the affordability of the steam end users in the Development Zone for their consumption of steam, one of the major sources of energy. The selling price quoted to the end users by the Heat Company has been regulated such that it is lower than the purchase cost of steam of the Heat Company. Given the above, the Heat Company would be running at a loss from the operation of its steam supply business without any supplemental income provided by the PRC government.

Due to the facts stated above, the Finance Bureau agreed to provide to the Heat Company (i) the Quantity-based Supplemental Income; and (ii) the Cost-based Supplemental Income.

For the year ended 31 December 2004, the amount of Quantity-based Supplemental Income and Cost-based Supplemental Income received by Heat Company was approximately RMB80.24 million (equivalent to approximately HK\$77.16 million) and RMB66.16 million (equivalent to approximately HK\$63.62 million) respectively.

### **INFORMATION OF THE GROUP**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and associated companies are (i) infrastructure operations including toll road operations and port operations; (ii) utility operations including water supply and electricity supply; (iii) production, distribution and sale of consumer products including winery and dairy products; (iv) property development; (v) production, distribution and sale of industrial machinery; and (vi) other strategic investments.

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## LETTER FROM THE BOARD

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Tsinlien and its subsidiaries are principally engaged in import and export trading, investment in domestic and overseas textiles, garments and general merchandising operations as well as technology transfer and provision of consultancy services relating to foreign investments in Tianjin.

### REASONS FOR AND BENEFITS OF THE ACQUISITION

Leveraging on the established facilities, management expertise and customer base of Heat Company, the Directors are of the view that the Acquisition can provide the Group with an excellent opportunity to enter into the steam supply business in a faster pace. The Acquisition will also broaden the revenue base of the Group by integrating the relatively stable revenue source from the Heat Company.

With reference to the continuing growth and the increasing industrial output level of the Development Zone (as stated under the sub-section headed “The Development of the Development Zone” and “Outlook and Development of the Utility Industry in the Development Zone” in this letter), the expected future consumption of steam is surging. The Acquisition will provide a growth prospect for the Group’s overall businesses and strengthen the Group’s utility arm which represents one of the core businesses of the Group. The Directors consider that the Acquisition is in line with the corporate strategy of the Group.

The Directors consider that the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### FINANCIAL EFFECTS OF THE ACQUISITION

Prior to the Acquisition, the Company does not hold any interest in the Heat Company. Upon Completion, the Company will hold approximately 90.9421% equity interests in the Heat Company. Hence, the net financial results of the Heat Company (including earnings, assets and liabilities) will be consolidated into and reflected in the financial results of the Company.

Upon Completion, the Heat Company will become a subsidiary of the Company and thus its accounts, including its total amount of its liabilities, will be consolidated into accounts of the Company. As at 31 December 2004, total liabilities of the Heat Company was approximately RMB199.99 million (equivalent to approximately HK\$192.30 million). Assuming that the Acquisition was completed as at 31 December 2004, the pro forma total liabilities of the Group as at 31 December 2004, based on the audited consolidated balance sheet of the Group as at 31 December 2004, would increase from approximately HK\$3,051.78 million to approximately HK\$3,244.08 million.

The Directors also consider that the Acquisition would have a positive impact on the earnings base and net assets of the Group in the long run and will be beneficial to the Group as well as the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### CONNECTIONS BETWEEN THE PARTIES

As Tsinlien is the controlling shareholder holding approximately 63.8% of the entire issued share capital of the Company as at the Latest Practicable Date, Tsinlien is a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction under the Listing Rule 14A.17 and therefore is subject to the approval of the Independent Shareholders at the EGM by way of poll. Tsinlien and its associates will be required to abstain from voting in respect of the ordinary resolution to be proposed at the EGM for approving, if thought fit, the Acquisition and the transactions contemplated thereunder.

As far as the Company was aware having made all reasonable enquiries, as at the Latest Practicable Date, Tsinlien and its associates controlled or were entitled to exercise control over the voting right in respect of their respective Shares.

### RE-ELECTION OF THE RETIRING DIRECTOR

Pursuant to paragraph A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Mr. Bai Zhisheng was appointed as an executive Director with effect from 1 January 2006 to fill the casual vacancy of the Board. The EGM will be the first general meeting after the appointment of Mr. Bai Zhisheng. In compliance with paragraph A.4.2 of the Code, Mr. Bai Zhisheng shall hold office until the EGM and shall be eligible for re-election. Details of Mr. Bai Zhisheng are set out in Appendix I to this circular. An ordinary resolution will be proposed at the EGM to approve, if thought fit, that Mr. Bai Zhisheng be re-elected as an executive Director.

### EGM

Set out on pages 60 to 61 in this circular is a notice convening the EGM to be held on 23 February 2006 at 3:00 p.m. at Salon II, Ballroom Level, The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong at which ordinary resolutions will be proposed to approve, if thought fit, (i) the Acquisition and the transactions contemplated thereunder; and (ii) re-election of Mr. Bai Zhisheng as a Director.

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of the Company, Tengis Limited at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION IN RELATION TO THE ACQUISITION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 25 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition and transactions contemplated thereunder, and (b) the letter from Baron set out on pages 26 to 49 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and transactions contemplated thereunder, the principal factors and reasons considered by Baron in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of Baron, considers that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, if thought fit, the Acquisition and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the Board  
**Wang Guanghao**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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天津發展控股有限公司  
TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)  
(Stock code: 882)

To the Independent Shareholders,

4 February 2006

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 90.9421% INTEREST IN TIANJIN TEDA TSINLIEN HEAT & POWER CO., LTD.**

We refer to the circular of the Company dated 4 February 2006 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition and to advise you as to whether the terms of the Acquisition are fair and reasonable and in the interests of Company and the Independent Shareholders as a whole. Baron has been appointed as an independent financial adviser to advise us and the independent Shareholders on the terms of the Acquisition.

We wish to draw your attention to the letter from the Board, and the letter from Baron to us and Independent Shareholders which contains its advice in relation to the Acquisition together with the principal factors taken into consideration in arriving at such advice, as set out in the Circular.

Having considered the terms of the Acquisition and the advice of Baron in relation thereto, we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole and that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve, if thought fit, the Agreement and transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

the Independent Board Committee

**Mr. Kwong Che Keung, Gordon**

**Mr. Lau Wai Kit**

**Dr. Cheng Hon Kwan**

*Independent Non-Executive Directors*

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## LETTER OF ADVICE FROM INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Baron dated 4 February 2006 prepared for the purpose of incorporation in this circular:*



4/F, Aon China Building  
29 Queen's Road Central  
Central, Hong Kong

4 February 2006

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

### **ACQUISITION OF APPROXIMATELY 90.9421% INTEREST IN TIANJIN TEDA TSINLIEN HEAT & POWER CO., LTD.**

#### **INTRODUCTION**

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 4 February 2006 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Our role as the independent financial adviser is to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Acquisition pursuant to the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole and to advise how the Independent Shareholders should vote in respect of the resolution to approve the Agreement and the transactions contemplated thereunder at the EGM.

On 13 January 2006, the Board announced that, the Company, Progress City and Tsinlien entered into the Agreement on 10 January 2006, pursuant to which the Company conditionally agreed to acquire, or procure its designated wholly-owned subsidiary to acquire, Progress City conditionally agreed to sell, and Tsinlien agreed to procure Progress City to sell, the Sale Interest at a consideration of HK\$380 million.

As Tsinlien is the controlling shareholder of the Company which is holding approximately 63.8% of the entire issued share capital of the Company, and is a connected person of the Company, the Acquisition constitutes a connected transaction under Rule

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## **LETTER OF ADVICE FROM INDEPENDENT FINANCIAL ADVISER**

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14A.17 of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM by way of poll. Tsinlien and its associates will be required to abstain from voting in respect of the Acquisition at the EGM. Since the applicable percentage ratios in respect of the Acquisition exceed 5% but less than 25%, the Acquisition also constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

The Independent Board Committee, comprising Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan, has been established by the Company to advise the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder and to give a recommendation to the Independent Shareholders in relation to the voting of the relevant resolution(s) at the EGM.

### **BASIS OF OUR OPINION**

In arriving at our opinion and recommendation, we have relied on the information supplied and the opinion expressed by the Directors and the management of the Company. We have reviewed, amongst others, the Agreement, the published information on the Company such as the annual reports and interim reports of the Company, the unaudited financial statements of the Heat Company for the two financial years ended 31 December 2004 and the nine months ended 30 September 2005, the price data on comparable listed companies in Shanghai, Shenzhen and Hong Kong and the published information of the Development Zone, including the website of Tianjin Economic-Technological Development Area (“TEDA”) and TEDA 2004 annual report. We have also assumed that the information contained and representations made to us or referred to in the Circular are true, accurate and complete at the time they were made and continue to be so at the date of the Circular.

We consider that we have been provided with sufficient information to form a reasonable basis of our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and further confirmed that, to their best knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We have not, however, carried out any independent verification on the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company and nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition.

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## LETTER OF ADVICE FROM INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, we have taken the following principal factors and reasons into consideration:

#### A. Background of the Group

As set out in the “Letter from the Board” contained in the Circular, the principal activity of the Company is investment holding. The principal activities of its subsidiaries and associated companies are (i) infrastructure operations including toll road operations and port operations; (ii) utility operations including water supply and electricity supply; (iii) production, distribution and sale of consumer products including winery and dairy productions; (iv) property development; (v) production, distribution and sale of industrial machinery; and (vi) other strategic investments.

#### B. The Acquisition

##### *1. Asset to be acquired under the Agreement and the background of the Heat Company*

Pursuant to the Agreement, the Company has conditionally agreed to acquire, or procure its designated wholly-owned subsidiary to acquire, the Sale Interest from Progress City at the Consideration, which shall be satisfied as to HK\$305.1 million by cash and HK\$74.9 million by issuance and allotment of 20 million Consideration Shares at the Issue Price. The Sale Interest represents approximately 90.9421% of the entire equity interest of the Heat Company which is currently held by Progress City, a wholly-owned subsidiary of Tsinlien.

The Heat Company is a Sino-foreign equity joint venture enterprise incorporated in the PRC on 5 July 2000. As stated in the “Letter from the Board”, the Heat Company acts as a sole distributor of the steam, purchases steam from the steam production company and distributes through its transmission pipelines and processing stations to the end users in the Development Zone. As at the Latest Practicable Date, the Heat Company mainly derives its revenues from steam usage charges and related technical consultancy service related to steam distribution for the end users of industrial uses, and heating for commercial and residential purposes in the Development Zone. Before Completion, the Heat Company is directly owned as to approximately 90.9421% by Progress City and approximately 9.0579% by Tianjin TEDA. Upon Completion, the Heat Company will be owned as to approximately 90.9421% by the Company and approximately 9.0579% by Tianjin TEDA. The Heat Company will then become a subsidiary of the Company and its accounts will be consolidated into the Group’s accounts.

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### 2. *Reasons for, and benefits of, the Acquisition*

#### *(a) An excellent opportunity to enter into the steam supply industry*

Our due diligence work in connection with the Acquisition included (i) interview with the management of the Heat Company, (ii) site visit to the Heat Company, and (iii) obtaining the management representation by the Company. Our due diligence work also covered the information we collected from the Company in relation to the Acquisition, including, amongst others, the unaudited financial statements of the Heat Company for the two financial years ended 31 December 2004 and for the nine months ended 30 September 2005, the valuation report prepared by 天津市吉威有限責任會計師事務所 (Tianjin City Jiwei Certified Public Accountants Limited Liability Company), the published information of the Development Zone such as TEDA annual report and the website of TEDA, the statutory records of the Heat Company (i.e. memorandum of the Heat Company, business registration and certificate of approval of the Heat Company) and company information of the Heat Company. We noted the Heat Company has steam transmission pipelines coverage of approximately 300 kilometers and more than 60 processing stations in the Development Zone. We also noted that the number of customers of the Heat Company has increased from 5,435 in year 2000 to 29,200 in year 2005. We are of the opinion that the Heat Company has an established facilities and an extensive customer base. The Heat Company is the sole distributor of the steam through its transmission pipelines and processing stations to the end users in the Development Zone, in this connection, we believe the Group can leverage on the management expertise of the Heat Company in the industry to accelerate its pace of development in the Development Zone.

Furthermore, if the Group starts a new venture on its own, it would possibly have to devote resources to train up new management/employees for developing the utility market in the Development Zone. The current management team of the Heat Company has been in place since the incorporation of Sino-foreign equity joint venture enterprise incorporated in the PRC on 5 July 2000. According to the management of the Company, the key personnel of the Heat Company will not be materially changed upon completion of the Acquisition. The existing management has substantial years of experience in the operations and management of utility companies and the Development Zone, therefore, the Company can leverage the existing management's expertise for running the business by acquiring the Heat Company. We also believe that, since it would take more time and resources for the Company to train up new management/employees for developing the utility market in the Development Zone, the Company could accelerate its pace of development in the Development Zone by leverage the existing management's expertise for running the business. In this connection, we conclude that acquiring the Heat Company with an established production facilities and customer base will allow the Group to expand its utility business in the Development Zone while reducing the risk of business failure (when comparing to setting up a new business, or acquiring a facility which does not have previous track records) and provide the Group with an immediate and solid cashflow and profit contribution. Taking into consideration of the historical financial information, the established

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transmission facilities and the customer base of the Heat Company, we concur with the Directors' view that the Acquisition could provide with the Group an excellent opportunity to enter into the steam supply industry at a faster pace.

*(b) Growth potentials*

The Heat Company is located at and operating in the Development Zone and enjoys the benefits of rapid economic growth in the Development Zone. According to an article from the website of TEDA reported by Tianjin Economic-Technological Development Area Administrative Commission, from 1992 to 2004, the GDP of the Development Zone increased from approximately RMB1.3 billion (equivalent to approximately HK\$1.25 billion) to approximately RMB53 billion (equivalent to approximately HK\$50.96 billion), representing an increase of approximately 41 times; export increased from approximately USD160 million (equivalent to approximately HK\$1,248 million) to approximately USD11 billion (equivalent to approximately HK\$85.8 billion), representing an increase of approximately 69 times; and the gross industrial output value increased from approximately RMB3.2 billion (equivalent to approximately HK\$3.08 billion) to approximately RMB182 billion (equivalent to approximately HK\$175 billion), representing an increase of approximately 57 times. The following table and chart illustrate the economic development of the Development Zone between 1999 to 2004:

### Statistics of the Development Zone 1999-2004

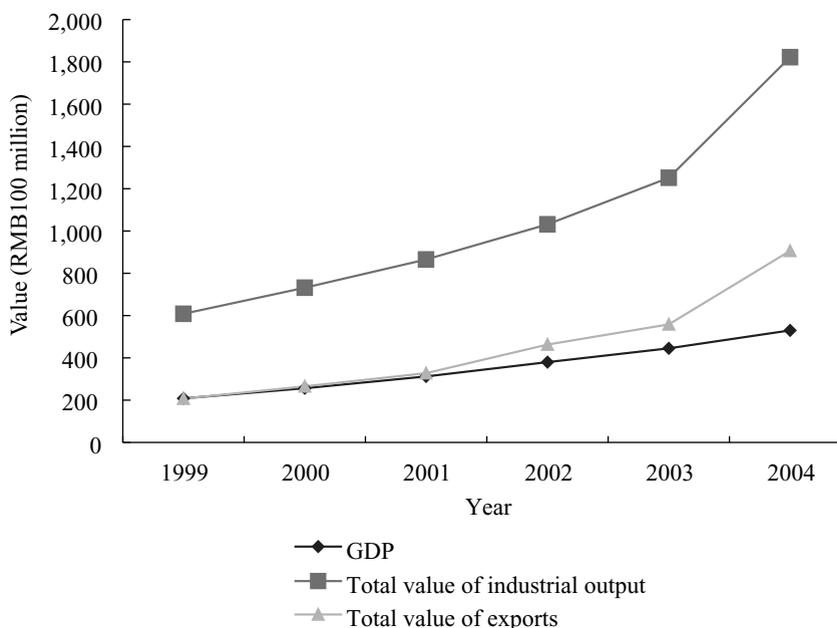
	1999	2000	2001	2002	2003	2004
GDP						
(RMB100 million)	208.45	256.44	312.03	380.09	445.23	530.22
year over year growth rate	N/A	23.02%	21.68%	21.81%	17.14%	19.09%
Gross industrial of output value						
(RMB100 million)	608.55	731.82	865.11	1,031.24	1,251.4	1,822.14
year over year growth rate	N/A	20.26%	18.21%	19.20%	21.35%	45.61%
Total value of exports						
(RMB 100 million)	207.04	264.85	327.10	462.56	558.21	905.89
year over year growth rate	N/A	27.92%	23.51%	41.41%	20.68%	62.29%

*Sources:* TEDA 2004 annual report and TEDA website

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Sources: TEDA 2004 annual report and TEDA website

As shown from the above table and chart, we noted that the GDP, the gross industrial of output value and the total value of exports were all on increasing trends, indicating a period of growth for the period of 1999 to 2004. The growth rate for GDP, the gross industrial of output value and the total value of exports were 19.09%, 45.61% and 62.29% respectively between the year from 2003 to 2004.

In 2003, the development proposal of the west zone of the Development Zone was submitted to the relevant government officials for approval and was subsequently approved and the west zone will provide abundant land resource for the Development Zone. Accordingly, substantial progress has been made in land expansion and we believed that more production plants and residential apartments will be developed, which will further boost the demand for utility. We also believed that with more overseas enterprises establishing in the Development Zone, there will be more industrial activities and the demand for utilities should be on an increasing trend. In view of the increasing economic activities in the TEDA, we concur with the Directors' view that the demand for the steam will have a substantial capacity to grow.

The Development Zone is located in the Pan Bohai Sea Coastal Area and is one of the strategic areas identified for the leader for the overall PRC economic development in the preliminary draft of the China's Eleventh Five-Year Plan. We believe that the continuing growth of the GDP and industrial development in the Pan Bohai Sea Coastal Area could boost the demand of the utilities. Located at the heart of the Pan Bohai Sea Coastal Area, the Development Zone is also expected to be benefited as a higher GDP and the growth of industrial output would lead to a higher demand for utilities. Taking into consideration the continuing growth of the Development Zone, the growth of the GDP in the Development Zone, the gross industrial output value and the total value of exports

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and the growth prospects of the Pan Bohai Sea Coastal Area, we consider that there exists an ample capacity of growth for a sole distributor of steam in the Development Zone such as the Heat Company. Therefore, we are of the view that the Acquisition will provide a growth prospect for the Group's overall businesses and strengthen the Group's utility arm which represents one of the core businesses of the Group.

*(c) Enhancing profitability and shareholders' value by integration of solid cashflows and profits*

As stated in the "Letter from the Board", the Heat Company is the sole distributor of the steam and distributes through its transmission pipelines and processing stations to the end users in the Development Zone, with its steam transmission pipelines coverage of approximately 300 kilometers and more than 60 processing stations in the Development Zone. For the year ended 31 December 2004, the total quantity of steam sold was approximately 1.7 million tonnes.

Based on the information provided by the Company, the unaudited net asset value of Heat Company as at 31 December 2004 according to the Hong Kong generally accepted accounting principles was approximately RMB261.48 million (equivalent to approximately HK\$251.42 million) and that as at 30 September 2005 according to the PRC generally accepted accounting principles was approximately RMB291.19 million (equivalent to approximately HK\$280 million). The table below sets out the unaudited profit/(loss) before and after taxation of the Heat Company (denominated in RMB and their respective HK\$ equivalent amount) for each of the two years ended 31 December 2004 and for the nine months ended 30 September 2005 respectively:

	<b>For the year ended 31 December</b>		<b>For the year ended 31 December</b>		<b>For the nine months ended</b>	
	<b>2003</b>		<b>2004</b>		<b>30 September</b>	
	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	(4,725)	(4,543)	14,014	13,475	32,431	31,184
Profit/(loss) after taxation	(4,758)	(4,575)	12,992	12,492	29,717	28,574

As seen from the above table, we noted that the Heat Company is a company with an increasing trend of profits. Upon Completion, future revenues and profits will be consolidated into the Group's accounts and the Group's revenue and profits (if any) will be improved as a result of the Acquisition. In this connection, we have assumed that the supplement income provided by Finance Bureau of TEDA will be continued (please find our analysis on the section headed "C. Supplemental income provided by the Finance Bureau" below). Accordingly, we are of the view that the Acquisition could broaden the Group's revenue base by integrating solid cashflows and profits from the Heat Company.

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As mentioned in the “Management Discussion and Analysis” in the interim report of the Company for the six months ended 30 June 2005, the future plan of the Group is to strengthen its core business and actively seeks investment opportunities in infrastructure and utility businesses and projects. As discussed with the management of the Company, the Directors have been looking for investment projects with potential to focus on utility businesses with similar business background and to strengthen the earnings of the Group in the long run. Accordingly, based on the fact that the Acquisition could broaden the Group’s revenue base by integrating solid cashflows and profits from the Heat Company, we are of the view that the Acquisition can enhance the earning base of the Group in the long run and is in line with the Group’s principal activities and corporate strategies.

*(d) Track record of successful acquisitions*

The Company has completed two successful acquisitions in utility companies in the Development Zone in November 2004. As stated in the interim report of the Company for the six months ended 30 June 2005, the Electricity Company and the Water Company has recorded turnover of approximately HK\$372.2 million and HK\$79.1 million for the six months ended 30 June 2005 respectively. The profit attributable to the Shareholders for the Electricity Company and Water Company were approximately HK\$26.6 million and HK\$19.9 million respectively. The total quantity of electricity sold and water sold for the period were approximately 655,000,000 kWh and approximately 15,390,000 tonnes, representing an increase of 20% and 10% over the same period of 2004, respectively.

Based on the above, we are of the view that the business and financial performance of the Water Company and Electricity Company not only confirm the success of the past acquisitions of the Company in the Development Zone, but also illustrate the profit and growth potentials of investments in the Development Zone. In this regard, although the success of past acquisition might not necessarily transform into future success, nevertheless, based on the expertise and the experience of the management of the Company in the Development Zone and the historical performance of investments of the Company in the Development Zone, we believe that the Acquisition could portraint another successful transaction to the Company, similar to the acquisitions of the Electricity Company and the Water Company.

Having taken into account the above, in particular that the Acquisition (i) can enhance the earnings base of the Group in the long run and is in line with the Group’s principal activities and business strategies; (ii) represents an excellent opportunity of the Group to enter into the utility industry in the Development Zone while keeping the risk of business failure at a low level (please refer to our analysis drawn in (2)(a) above); (iii) future growth prospects of the Heat Company; and (iv) successful track records of the acquisitions of the Water Company and Electricity Company, we consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

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### 3. *Basis of consideration and valuation*

#### (a) *Consideration*

Pursuant to the Agreement, the Company will acquire approximately 90.9421% equity interest of the Heat Company for a consideration of HK\$380 million, which shall be satisfied by payment of cash a sum of HK\$305.1 million and the balance of HK\$74.9 million by issue and allotment of Consideration Shares to Tsinlien or its designated wholly-owned subsidiary. The Issue Price equals the average closing price of HK\$3.745 per Share for the last ten trading days up to and including the day before the date of the Agreement. The Directors confirmed that the Consideration was determined after arm's length negotiation between the Company and Tsinlien and with reference to, amongst other things, (i) the unaudited net profit after taxation of approximately RMB31.49 million (equivalent to approximately HK\$30.28 million) of the Heat Company for the year ended 31 December 2004, being adjusted for the one-off provision against deposits of approximately RMB20 million with two financial institutions which had been taken over by Tianjin government in year 2004; (ii) the unaudited net asset value of approximately RMB261.48 million (equivalent to approximately HK\$251.42 million) of the Heat Company as at 31 December 2004; (iii) the development of utility industry in the Development Zone; and (iv) the revenue prospects of the Heat Company. According to the Directors, the cash consideration of HK\$305.1 million will be funded by the internal resources of the Company.

In the determination of the basis of the Consideration, the Company has selected nine listed companies in Hong Kong, Shenzhen and Shanghai (the "Comparables"), which are principally engaged in the operation of heat and electricity. We have reviewed the public information available on the Comparables and we believed that the Comparables are representative samples and it is reasonable to compare these nine listed companies chosen to the Heat Company on the basis that: (a) the Comparables have steam operations and the operations are based in mainland China which are similar with those of the Heat Company and (b) the Comparables are listed companies with the information available to the public. The following table illustrates the relevant multiples of the Comparables including the price-to-earnings ratio ("P/E") and the price-to-book value ratio ("P/BV") of the Comparables based on their respective closing prices of the shares quoted on their respective stock exchanges as at the date prior the board meeting which approved the Acquisition (i.e. 9 January 2006) and their latest published annual and interim reports.

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<b>Company name (Stock Code)</b>	<b>Principal business activities</b>	<b>P/E (times)</b>	<b>P/BV (times)</b>
<b>Shanghai</b>			
Ningbo Thermal Power Co., Ltd. (600982.SH)	Engaged in the production of electric power and to provide consultation services to electric power companies. It also engaged in production of steaming, pipeline network and coal industry	25.90	1.96
Shenyang Jinshan Thermoelectric Co., Ltd. (600396.SH)	Supply of thermoelectricity generation and electric heating	24.72	2.48
Xinjiang Tianfu Thermoelectric Co., Ltd. (600509.SH)	Engaged in the production and supply of thermal power, hydro-electricity and electric power	18.36	1.60
Beijing Jingneng Thermal Power Co., Ltd. (600578.SH)	Development and operation of heat and electricity, the sale of heat, electricity and heating products	20.25	2.03
Shanghai Electric Power Company Limited (600021.SH)	Development and operation of heat and electricity	16.27	1.04
<b>Shenzhen</b>			
Shenzhen Nanshan Power Station Co., Ltd. (000037.SZ)	Engaged in electric power generation	7.69	2.00
<b>Hong Kong</b>			
Huadian Power International Corporation Limited – H Shares (1071.HK)	Generation and sale of electricity and heat	10.98	1.16
Datang International Power Generation Co., Ltd. – H Shares (991.HK)	Acquire, own and operate existing coal-fired power plants and to develop, construct, own and operate new power plants	13.58	1.75
China Resources Power Holdings Company Limited (836.HK)	Invest, develop, own and operate large coal-fired power plants in the more affluent regions in China	12.81	1.65
<b>Average</b>		<b>16.73</b>	<b>1.74</b>
<b>Maximum</b>		<b>25.90</b>	<b>2.48</b>
<b>Minimum</b>		<b>7.69</b>	<b>1.04</b>
<b>The Acquisition</b>			
– before the adjustment of the one-off provision against deposits		<b>33.45</b>	<b>1.66</b>
– after the adjustment of the one-off provision against deposits (note 4)		<b>13.80</b>	<b>1.66</b>

*Sources:* Latest annual and interim report of the respective Comparables, the websites of the Shanghai Stock Exchange, Shenzhen Stock Exchange and the Hong Kong Stock Exchange

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*Notes:*

- (1) Share price refers to the closing price of the respective listed comparable companies with main operations in mainland China as quoted on the Stock Exchange on 9 January 2006 (the date before the board meeting which approved the Acquisition) and the total number of shares in issue according to the relevant company's latest published annual or interim report or announcement (as the case may require).
- (2) Earnings refer to the net profit as per the latest published audited full year financial statements of the relevant company available.
- (3) NAV refers to the net asset value as per the latest published financial statements of the relevant company available.
- (4) The P/E and the P/BV of the acquisition of the 90.9421% interest of the Heat Company represented by the consideration of HK\$380 million. In the calculation of the P/E ratio, one-off items/non recurring items are excluded. (For further analysis, please refer to the paragraph below).

As seen from the above table, the P/E of the Comparables ranged from approximately 7.69 times to 25.90 times, with an overall average of 16.73 times. In respect of the P/BV, it ranges from approximately 1.04 times to 2.48 times, with an overall average of 1.74 times.

P/E ratio is one of the most commonly used measures of relative value of a company. In order to reflect the true fundamentals of the Heat Company, when calculated the P/E of the Heat Company, any material one-off item gains or losses that is not expected to occur in the future should be excluded. Therefore, the non-recurring expenses of approximately RMB20 million for the financial year ended 31 December 2004 (and the related tax impact) were excluded in calculation of the P/BV of the Heat Company. It is noted that the non-recurring expenses was related to a provision against deposits with two financial institutions which had been taken over by the PRC government in 2004. We considered that the calculation of P/E should be based on the recurring operations of the Heat Company other than any one-off items as these one-off items does not reflect the true fundamental value of a company in the long run, which the application of P/E analysis is based on. We also believed that, in applying the P/E comparative analysis, the basis of the Consideration should be based on a full year result, not on a partial year result. Therefore, we are of the view if the full year results of 2005 of the Heat Company were available on the date of the board meeting which approved the Acquisition, then it should be used as the basis of determination of the Consideration. However, as at the Latest Practicable Date, the full year results of 2005 of the Heat Company are not yet available. In this connection, we are of the view that the determination of the consideration using the full year 2004 results would generate a more appropriate, meaningful and complete result, when compared using the nine-month period results of 2005.

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Based on the unaudited profit and loss account of the Heat Company, the unaudited attributable net profit after taxation (the “Attributable Profit”) of the Heat Company for the year ended 31 December 2004 is approximately RMB28.64 million (equivalent to approximately HK\$27.54 million). The Consideration for the Acquisition represents approximately 13.80 times of the Attributable Profit. Such figure is within the range and lower than the average P/E of the Comparables.

According to the unaudited balance sheet of the Heat Company as at 31 December 2004, the attributable unaudited net asset value of the Heat Company (the “Attributable NAV”) is approximately RMB237.80 million (equivalent to approximately HK\$228.65 million). The Consideration for the Acquisition represents approximately 1.66 times of the Attributable NAV, and also represents approximately 4.60% discount to the average P/BV of the Comparables. Such figure is within the range and lower than the average P/BV of the Comparables.

All of the Comparables are public listed companies in Shanghai, Shenzhen and Hong Kong with an average P/E and average P/BV of approximately 16.73 times and 1.74 times respectively. The average P/BV of the Comparables is 1.74 times. The Consideration of approximately 13.80 times of the Attributable Profit and 1.66 times of the Attributable NAV were both within the range of the Comparables. We also noted that the Consideration to Attributable Profit multiple for the Acquisition is approximately 17.51% lower than the average P/E of the Comparables, while the Consideration to Attributable NAV multiple for the Acquisition is approximately 4.60% lower than the average price to NAV multiple of the selected companies.

Based on our above analysis, we concur with the Directors’ view that the basis of the determination of the Comparables is fair and reasonable.

*(b) Settlement terms of the Consideration*

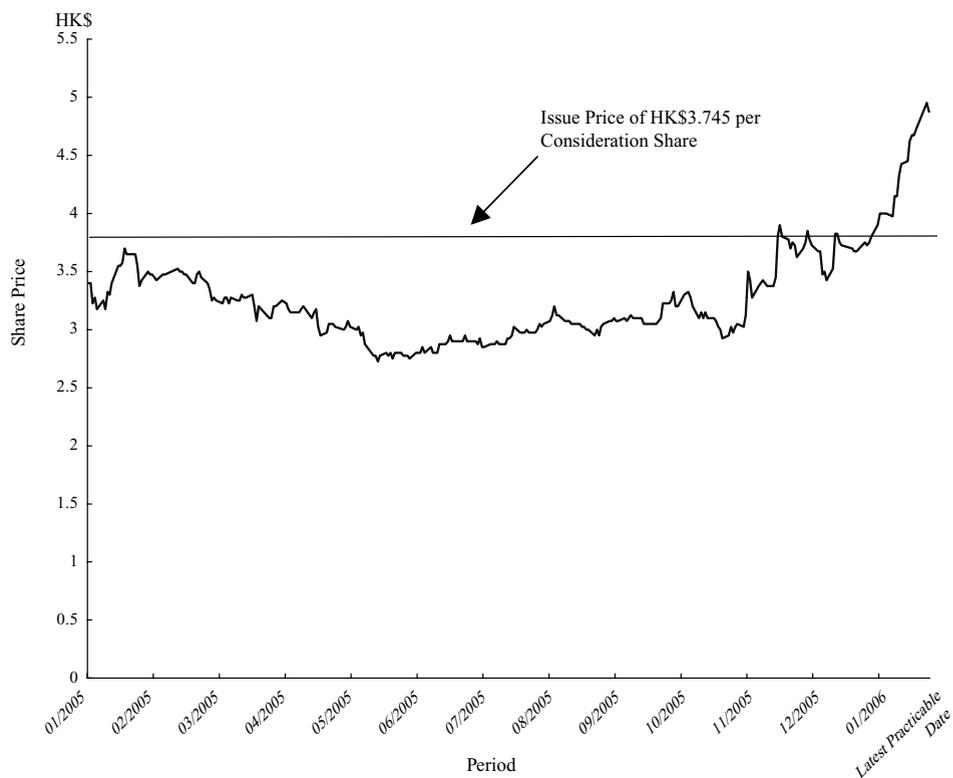
As mentioned in the “Letter from the Board”, the Consideration of HK\$380 million will be satisfied by way of cash of HK\$305.1 million and the balance of HK\$74.9 million by issue and allotment of the Consideration Shares at a price of HK\$3.745 per Share.

The Consideration Shares represent approximately 2.20% of the existing issued share capital of the Company and approximately 2.15% of the issued share capital of the Company as enlarged by the Consideration Shares. On the basis of the closing price of HK\$4.0 per Share as quoted on the Stock Exchange on 10 January 2006, the market value of the Consideration Shares is approximately HK\$80 million. The Issue Price is determined by the Company based on the average closing price of HK\$3.745 per Share for the last ten trading days up to and including the day before the date of the Agreement. The Issue Price per Consideration Share represents:

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- a discount of approximately 6.4% to the closing price of HK\$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 0.7% to the average closing price of HK\$3.77 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- a premium of approximately 0.94% to the average closing price of HK\$3.71 per Share as quoted on the Stock Exchange for the last 20 trading days up to and including the Last Trading Day;
- a premium of approximately 0.40% to the average closing price of HK\$3.73 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;
- a discount of approximately 23.18% to the closing price of HK\$4.875 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 29.34% to the net tangible asset value per Share of HK\$5.30 as at 31 December 2004.

The following is a chart set out the historical daily closing market prices of the Company from 1 January 2005 to the Latest Practicable Date:



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The Issue Price is at a discount to the average closing price of the Last Trading Day, the 10 trading days up to and including the Last Trading Day, the Latest Practicable Date and the net tangible asset value per Share of HK\$5.30 as at 31 December 2004. On the other hand, the Issue Price is set at a premium to the average closing price of 20 trading days and 30 trading days up to and including the Last Trading Day. As shown in the above chart, we observed that the share prices of the Company for the 12-month period before the date of signing of the Agreement were traded mostly below the Issue Price. We also noted that the share prices of the Company for the 12-month period before the date of signing of the Agreement were traded at the range of approximately 24.52% to approximately 48.58% to the net tangible asset value per Share of HK\$5.30 as at 31 December 2004. Therefore, we considered that the discount of approximately 29.34% of the Issue Price to the net tangible asset value per Share of HK\$5.30 as at 31 December 2004, which is within the range of the discounts of the market price to the net tangible asset value per share, is justifiable.

We should draw the Independent Shareholders' attention that, the issuance of the Consideration Shares will affect the shareholding structure of the Company, in which the shareholding of Tsinlien in the Company will be increased from approximately 63.80% to approximately 64.57%. On the other hand, assuming (i) none of the employees or executive directors of the Group exercise of the share options under the share option scheme of the Company; (ii) Deltaway Inc. had not exercised any put options pursuant to an option agreement dated 15 January 2004; and (iii) the holders for the convertible bonds issued on 19 December 2005 by a subsidiary of the Company and convertible into the Shares did not exercise the conversion rights attaching thereto before issue and allotment of the Consideration Shares, the shareholding of the Independent Shareholders will be diluted from the existing level of approximately 36.20% to approximately 35.43%.

Albeit the minor effect of the issuance of the Consideration Shares may cause dilution of shareholding of the Independent Shareholders, we are of the view that, the Company could retain more of its cash resources and working capital for its day-to-day operations and future developments when compared to the settlement method by way of 100% cash. Given the fact that the dilution of the shareholding will not have a material effect on the shareholding structure of the Company and the Issue Price was at a premium to the average closing price of the 20 trading days and 30 trading days up to and including the Last Trading Day and were mostly above the trading prices of the Company for the 12-month period before the date of signing of the Agreement, we consider that the issuance of the Consideration Shares is acceptable and will enhance the cash and working capital position of the Company. Alternatively, if the consideration is to be settled wholly by way of the issuance of the Shares at the Issue Price, the shareholding of the Independent Shareholders will be diluted from the existing level of approximately 36.20% to approximately 32.58%. Therefore, we are of the view that the current settlement terms achieves a balance between retaining more of its cash resources and working capital for its day-to-day operations and future developments and a material dilution of the shareholding to the Independent Shareholders. Taken into

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consideration of the above, we are of the view that the settlement terms are fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

### C. Supplemental income provided by the Finance Bureau

According to Clause 10 of the 天津經濟技術開發區鼓勵社會投資主體經營基礎設施項目的暫行規定 (Temporary Rules of Encouraging the Investment in Operating Infrastructures by the Development Zone) promulgated by the Development Zone, the Development Zone will subsidize the investors or operators operating infrastructural products and services whose prices are regulated by the PRC government in order for reasonable operating benefits to be accrued to them. The selling price and the cost of the steam sold and purchased by the Heat Company respectively are both regulated by the PRC government.

As disclosed in the “Letter from the Board” in the Circular, the price of coal, the major product for the production of steam, has been increasing for the past two years. We have reviewed the financial information of the Heat Company for the years ended 31 December 2003 and 2004, subsidies have been received from Tianjin TEDA to subsidize the operating loss of the Company on a discretionary basis prior to 1 January 2004. However, after 1 January 2004, the discretionary subsidies were replaced by governmental supplemental income received from the Finance Bureau of TEDA. In order for reasonable operating benefits to be accrued to the steam producer, the PRC government allowed the selling price of steam quoted by the producer to increase accordingly. On the other hand, the PRC government has to ensure an attractive operating environment to the investors and their affordability for consumption of steam, one of the major sources of energy in Tianjin Development Zone. The selling price quoted to the end users by the Heat Company has been regulated such that it is lower than the purchase cost of steam of the Heat Company. As a consequence, the Heat Company would be running at a loss from the operation of its steam supply business without any supplemental income from the PRC government. Due to the facts stated above, the Finance Bureau issued two separate letters to the Heat Company on 29 September 2005 and 24 October 2005 and agreed to provide to the Heat Company (i) a quantity-based supplemental income to the Heat Company at a rate of RMB50 for every tonne of steam sold (the “Quantity-based Supplemental Income”) to its customers; and (ii) the full amount of any positive difference between the purchase cost and the selling price of the steam sold by the Heat Company (“Cost-based Supplemental Income”).

We have reviewed the two letters issued by Finance Bureau to the Heat Company dated 29 September 2005 and 24 October 2005 and the financial information of the Heat Company for the two years ended 31 December 2004. We noted that the amount of Quantity-based Supplemental Income and Cost-based Supplemental Income received by Heat Company for the year ended 31 December 2004 was approximately RMB80.24 million (equivalent to approximately HK\$77.16 million) and RMB66.16 million (equivalent to approximately HK\$63.62 million) respectively. As compared to the financial information of the Heat Company, with the subsidies from the Tianjin government, the earnings of the Heat Company had made a turnaround from the net loss position of approximately RMB4.76 million for the year ended 31 December 2003 to net profit of approximately RMB12.99 million for the year ended 31 December 2004. We are of the view that the supplemental

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incomes are very important to the Company and should the Finance Bureau discontinued the granting of supplemental incomes to the Heat Company, the financials of the Heat Company would be negatively affected.

We believed that the PRC government would continue to grant supplemental income to entities for the provision of utility services under a price-regulated environment on the basis that the utilities prices are regulated in the Development Zone in order to increase competitiveness within the Development Zone (when compared to other countries) for foreign investments. Under the current price-regulated environment, most utility companies in the Development Zone will be operating at a loss and therefore it would not be economically feasible for these utility companies to operate in the Development Zones without the provision of supplemental incomes. Therefore, logically speaking, should the PRC government discontinued to provide supplemental incomes to the utility companies in the Development Zone, most utility companies will be forced to be out of business and lead to the lacking of provision of basic utilities services in the Development Zone. On that basis, we are of the view that the PRC government would continue to grant supplemental income to entities for the provision of utility services under a price-regulated environment.

We are of the opinion that with the Quantity-based Supplemental Income and the Cost-based Supplemental Income in place, a reasonable operating profit can be maintained by the Heat Company despite the fact that the selling price and the cost of the steam sold and purchased by the Heat Company were both regulated by the PRC government.

### **D. Effects of the Assets Swap on the Heat Company**

#### *The details of the Asset Swap*

According to the “Letter from the Board” in the Circular, the Heat Company has entered into an assets swap agreement with TEDA Heat on 12 October 2005 (“Assets Swap Agreement”), pursuant to which the Heat Company agreed to swap all of its steam production factory and related production facilities (the “Factory”) for an equal value of approximately RMB130 million (equivalent to approximately HK\$125 million) of the Steam Transmission Facilities owned by TEDA Heat (the “Assets Swap”). It is worth-mentioning that the Assets Swap has been entered into and completed before the Acquisition and therefore is not part of the Acquisition. However, we believe that it is necessary to include an analysis here on the effects of the Assets Swap, if any, to the Heat Company and how it would affect the future performance of the Heat Company.

Prior to the Assets Swap Agreement, a leasing agreement of the steam production plant owned by the Company was entered into between the Heat Company and an Independent Third Party (the “Leasing Agreement”) on 3 October 2003. After entering into the Leasing Agreement, the principal business activities of the Heat Company have changed from a producer and distributor of steam to a sole distributor of steam within the Development Zone. Since then, the Heat Company ceased to be a producer of steam and is only engaged in the distribution of steam within the Development Zone and the provision of its related technical consultancy service. Before entering into the Leasing Agreement, the steam production activity and the production plant was a material operation and asset of the Heat Company. However, after the Leasing

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Agreement has been entered on 3 October 2003, the principal business activities of the Heat Company have changed from a producer and distributor of steam to a sole distributor of steam within the Development Zone. Since then, the Heat Company ceased to be a producer of steam and is only engaged in the distribution of steam within the Development Zone and the provision of its related technical consultancy service. Therefore, we are of the view that the subject matter of the Asset Swap, the production plant, has become immaterial to the operations of the Heat Company.

### *The financial effects of the Assets Swap*

After the Assets Swap, the ownership of the Factory has been transferred from the Heat Company to TEDA Heat and the Leasing Agreement had been terminated. Accordingly, the Heat Company no longer received a rental income of approximately RMB6.60 million (equivalent to approximately HK\$6.34 million) pursuant to the Leasing Agreement. According to the “Letter from the Board”, the total amount of rental income forgone and the rental expenses incurred by the Heat Company are approximately RMB18.10 million (equivalent to approximately HK\$17.40 million) can be offset by the savings in running costs of the Factory of approximately RMB20.6 million (equivalent to approximately HK\$19.83 million) and depreciation expenses of approximately RMB1.7 million (equivalent to approximately HK\$1.63 million). As confirmed by the management of the Heat Company, the Heat Company can save the costs for running the production facilities including staff cost and welfare, repair and maintenance and other fixed production overhead. We have reviewed the valuation report prepared by an independent valuer 天津市吉威有限責任會計師事務所 (Tianjin City Jiwei Certified Public Accountants Limited Liability Company) (the “Valuer”), in relation to the values of the assets as at 30 June 2005 to be swapped, the assets to be swapped in was valued at RMB130,098,600 and the assets to be swapped out was valued at RMB130,096,500. We have also interviewed and discussed with the Valuer on the scope of the work done in relation to the valuation and the assumptions used. We consider that the difference in the values of the assets swapped as at 30 June 2005 was insignificant and such difference was only RMB2,100 and accounted for less than 0.001% of the total assets of the Heat Company.

The management of the Heat Company also confirmed that the deprecation rate applied to the Production Facilities and the Steam Transmission Facilities are almost the same and therefore, there is no material difference in depreciation expense before and after the completion of the Assets Swap. The overall net effect of the Assets Swap to the Heat Company is an annual net cost savings of approximately RMB4.20 million (equivalent to approximately HK\$4.04 million). Having reviewed the financials of the Heat Company for the financial years ended 2003 and 2004 and based on the fact that production plant has become immaterial to the operations of the Heat Company after the Leasing Agreement has been entered into on 3 October 2003, we concur with the Director’s view that the Assets Swap has no negative effect on the profitability of the Heat Company. Furthermore, the net effect of the Assets Swap to the Heat Company is an annual net cost savings and hence, a slight improvement of the profitability, of approximately RMB4.20 million per year (equivalent to approximately HK\$4.04 million).

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### *Impact on the operations of the Heat Company*

In the process of transmission of steam to its customers, it is necessary for the Heat Company to lease steam transmission pipelines from other third parties. As a result of the Assets Swap, the Heat Company can lower its reliance on other third parties on the facilities which is required for steam transmission. The Steam Transmission Facilities are currently the only transmission channel of the steam provided by the Heat Company to its customers, and in this regard, we concur with the Directors' view that the Steam Transmission Facilities are crucial to the business of the Company. Upon the completion of the Assets Swap, the Heat Company owns and controls the Steam Transmission Facilities. As a consequence, the Heat Company does not have to lease these facilities for the transmission of the steam to its customers. In this respect, we share the same view with the Directors that the Assets Swap enables the Heat Company to be less dependent on other third parties in respect of its operation.

### **E. Financial effects of the Acquisition**

#### *(i) Revenues and earnings*

The audited net profit attributable to the Shareholders for each of the two financial years ended 31 December 2004 were approximately HK\$212.80 million and approximately HK\$563.80 million respectively. The turnover of the Group for each of the two financial years ended 31 December 2004 were approximately HK\$1,927.38 million and HK\$2,102.47 million respectively. The revenue and net profit of the Heat Company for the financial year ended 31 December 2004 represent approximately 15.15% and 2.22% of the Group respectively.

Upon Completion, the Heat Company will become the subsidiary of the Company and the financial results of the Heat Company will be consolidated into results of the Group. Based on the financial statements of the Heat Company for the financial year ended 31 December 2004, the Heat Company recorded revenues (including supplement income) and earnings of approximately RMB331.28 million (equivalent to approximately HK\$318.54 million) and RMB12.99 million (equivalent to approximately HK\$12.49 million) respectively. As discussed with the section headed "Reasons for, and benefits of the Acquisition" above, given the historical financial information of the Heat Company for the financial years ended 31 December 2004, we believe the Acquisition could broaden the Group's revenue base by integrating solid cashflows and profits from the Heat Company. In view of the historical financials of the Heat Company, the established transmission facilities and customer base of the Heat Company as described in the paragraph headed "An excellent opportunity to enter into the steam supply industry" above and the high growth potential of the Heat Company, we are of the view that the Acquisition represents a good opportunity for the Group to broaden its revenues and earnings bases.

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### *(ii) Cash position*

As stated in the “Letter from the Board” in the Circular, the Consideration shall be satisfied partly in cash and partly by issue the Consideration Shares, it is expected that the cash and bank balance of the Group would be decreased by the difference of the cash position of the Heat Company and the cash consideration of HK\$305.1 million. As mentioned in the above paragraph, the financial results of the Heat Company will be consolidated by the Company upon Completion. We believe that, taking into the accounts of the future prospects, the future profits and cash inflow from the Heat Company, we consider that the Acquisition is justifiable even though there will be a temporary decrease of cash balances of the Group upon Completion.

### *(iii) Working Capital*

According to the interim report for the six months ended 30 June 2005, the Group’s current ratio (defined as total current assets divided by current liabilities) was 2.56 times. It is expected that the cash position of the Group would be decreased by the difference between the amount of cash consideration of HK\$305.1 million in financing the Acquisition by the Group and the cash position of the Heat Company. In respect of the reduction of the working capital, we have reviewed the assumptions embedded in the working capital forecasts prepared by the Company, and noted that the assumptions, including amongst others, the annual growth rates and gross profits percentages of each of the business segments of the Group, the proportion of expenses of turnovers, levels of dividends received from associated company, etc, were reasonable. We are of the view that the working capital forecasts forms a reasonable basis in concluding that the Group has sufficient working capital upon the completion of the Acquisition. After reviewed the cash flow forecast of the Group for the financial period ending 2006 and based on our discussion with the management of the Group in relation to the working capital requirements of the Company, we are of the opinion that the temporary decrease in working capital can be justified.

### *(iv) Gearing*

According to the unaudited consolidated balance sheet of the Group as at 30 June 2005, the Group has total debt of approximately HK\$2,116.8 million and the net asset value of the Group amounted to approximately HK\$5,600.67 million. The gearing ratio of the Group as at 30 June 2005 was approximately 0.38 times. Since no additional borrowing will be taken to finance the Acquisition, the Group’s debt would not be increased upon Completion. Therefore, there will not have any material effects on the Company’s gearing ratio (being the total borrowings divided by the net asset value) of the Group.

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Despite the temporary decrease in cash position and the worsening of the liquidity position of the Company after the Completion, taking into account of (i) the benefits of the Acquisition which mentioned in the section headed “Reasons for, and benefits of, the Acquisition”; (ii) the revenue base of the Group will be broaden after the Acquisition; and (iii) the long-term future earnings potential of the Heat Company, we consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

*(v) Dilution effect on shareholding*

Upon Completion, a total of 20,000,000 Consideration Shares will be issued by the Company will be issued and allotted within seven business days from the Completion Date. The Consideration Shares represent approximately 2.20% of the existing issued share capital of the Company and approximately 2.15% of the issued share capital of the Company as enlarged by the issuance of the Consideration Shares. As mentioned in the section headed “Settlement terms of the Consideration” above, the shareholding of the Independent Shareholders will be diluted from current level of approximately 36.20% to approximately 35.43%. We consider that the dilution of the Independent Shareholders’ shareholding interest in the Company, as a consequence of the issue of the Consideration Shares is acceptable, after taken into consideration, (i) the reasons for, and benefits of the Acquisition as stated in the section headed “The Acquisition” above; (ii) the Issue Price is traded above the trading prices of the Company for the 12-month period before the date of signing of the Agreement; and (iii) the issuance of the Consideration Shares will allow the Company to retain its cash resources for its day to day operations and future developments.

### **F. Conditions of the Agreement and guarantee provided by Tsinlien**

Completion is conditional upon fulfillment of, inter alia, the following conditions:

- (a) the passing of an ordinary resolution approving the Agreement and all the transactions contemplated thereunder by the Independent Shareholders at the EGM;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Consideration Shares;
- (c) the obtaining of all necessary consents, authorizations or other approvals from Tsinlien, Progress City, the Company and Tianjin TEDA in connection with the Agreement and all transactions contemplated thereunder (including but not limited to the Agreement, the new joint venture agreement and the new articles of association of the Heat Company);
- (d) Tianjin TEDA has agreed to waive its pre-emptive right to purchase the Sale Interest;

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- (e) the transfer of the Sale Interest has been duly approved in the board meeting of the Heat Company;
- (f) the obtaining of approval of the Acquisition from the relevant regulatory authorities or as required by the relevant laws and regulations of the PRC which are required to be obtained prior to Completion Date;
- (g) the Company being satisfied with the results of a due diligence review, including but not limited to the business, financial, legal and accounting aspects, of the Heat Company; and
- (h) the receipt of a legal opinion issued by a firm of the PRC qualified legal advisers covering, amongst other things, the legality and the validity of the Acquisition and all the transactions contemplated thereunder (including but not limited to the legal status, the businesses operated by the Heat Company and the interest in the land held by Heat Company).

As mentioned in the “Letter from the Board”, the Company may in its absolute discretion waive the conditions set out in clause (g) and (h) above, at any time before the Longstop Date by notice in writing to Tsinlien. Details of the Conditions are set out in the section headed “Conditions” in the “Letter from the Board”.

### **G. Other principal terms of the Agreement**

#### *(i) Guarantee of net assets value*

Tsinlien and Progress City guarantee to the Company in respect of (i) the undertaking that there will be no material adverse change with respect to the business operation, assets and financial positions of the Heat Company since 31 December 2004 up to and including the Completion Date (“No Material Adverse Change Undertaking”); and (ii) guarantee that the Completion Date NAV will not be less than the NAV 2004, which is RMB261.48 million (equivalent to approximately HK\$251.42 million) (the “NAV Guarantee”) and with reference to NAV 2004. If the Completion Date NAV as shown in the Completion Accounts is less than the NAV 2004, Tsinlien has to compensate the Company for the difference between these two figures in cash within 30 days from the date of provision of the Completion Accounts by the Company. However, should the Completion Date NAV is greater than the NAV 2004, no compensation is required from the Company to Tsinlien.

#### *(ii) Company’s right to sell the Sale Interest*

If (i) after the Completion Date, Tsinlien and Progress City have material breach in respect of the No Material Adverse Change Undertaking or any representations, warranties and undertakings given under the Agreement, or such representations, warranties and undertakings are untrue, inaccurate or misleading in any material respect; or (ii) all necessary consents, authorizations or other approvals in connection with the change of the shareholders of the Heat Company after the Completion cannot be obtained within 6 months after the Completion Date, subject to compliance with the

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applicable laws and regulations in the PRC and Hong Kong (including but not limited to the Listing Rules), the Company has the right to request Tsinlien or Progress City in writing to purchase wholly in cash the Sale Interest at the price equals to 110% of the Consideration. In addition, Tsinlien and Progress City shall (i) bear all the expenses and liabilities incurred by the Company in the normal operation of the Heat Company after Completion; and (ii) pay the Company in cash all the interest payments of the loan and all relevant expenses payable by the Company in connection with the Acquisition.

Having considered the above, we are of the view that the guarantee provided by Tsinlien and Progress City and the Company's right to sell Sale Interest serves as a warranty for the transaction and effectively safeguard the interests of the Company if the transaction cannot be completed as anticipated. We believe that such arrangement can effectively safeguard the interests of the Company and the Independent Shareholders as a whole. Accordingly, we are of the view that the guarantee provided by Tsinlien and Progress City and the Company's right to sell Sale Interest represents normal commercial practice and is in the interests of the Company and the Independent Shareholders as a whole.

### **H. Conclusion**

Despite the negative impact on the cash and liquidity position of the Group, having taken into account the above, in particular:

- (a) the Acquisition can provide the Group with an immediate and solid cashflow and profit contribution and can enhance the earnings base of the Group in the long run and is in line with the Group's principal activities and corporate strategies;
- (b) the Acquisition represents an excellent opportunity for the Group to acquire an utility company with an established transmission facilities and customer base which will allow the Group to enter into a high-growth industry while keeping the risk of business failure at a low level;
- (c) the Acquisition provides the growth prospect for the Group's overall businesses and strengthen the Group's utility arm which represents one of the core businesses of the Group;
- (d) the success of the previous acquisitions in utility companies in the Development Zone served as testimony that the Acquisition could portraint another successful deal to the Company in the broadening of the Group's revenue base by integrating solid cashflow and profits from the utility businesses;
- (e) the Consideration was determined after arm's length negotiation and were on normal commercial terms;

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- (f) under the comparable study containing listed companies in Shanghai, Shenzhen and Hong Kong, the Consideration representing approximately 13.80 times of the Attributable Profit and 1.66 times of the Attributable NAV were both within the range and lower than the averages of that of the Comparables;
- (g) the Consideration shall be satisfied partly in cash and partly by the Consideration Shares, the Company could retain more of its cash resources and working capital for its day-to-day operations and future developments, in our opinion, this compensated the fact that there will be an immaterial dilution of 0.77% on the existing shareholding interest of the Company by the Independent Shareholders when compared to the settlement method with cash only;
- (h) with the Quantity-based Supplemental Income and the Cost-based Supplemental Income in place, a reasonable operating profit can be maintained by the Heat Company despite the fact that the selling price and the cost of the steam sold and purchased by the Heat Company were both regulated by the PRC government;
- (i) based on the fact that the financials of the Heat Company will be slightly improved as a result of the Assets Swap and Assets Swap enables the Heat Company can lower its reliance on other third parties in respect of its operation, we are of the view that the Assets Swap have a positive effect on the future performance of the Heat Company;
- (j) the temporary decrease in cash position and the liquidity position of the Company can be justified after taking into account of the benefits of the Acquisition, the future prospects, future profits and cash inflow from the Heat Company; and
- (k) the guarantee provided by Tsinlien and Progress City and the Company's right to sell Sale Interest serves as a warranty for the transaction and effectively safeguard the interests of the Company should the transaction cannot be completed as anticipated;

We consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

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### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole and that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Baron Capital Limited**  
**Chiu Sui Keung, Thomas**  
*Managing Director*

Mr. Bai Zhisheng, aged 50, is a qualified senior economist. Mr. Bai graduated in 1984 from the undergraduate programme of Peking University, the PRC where he studied in international politics. He completed a postgraduate course specializing in law at the School of Central Committee of the Communist Party, the PRC in 1998. Mr. Bai Zhisheng has solid experience in formulating and managing investment strategies for over nine years. He was also the executive director in Dynasty Fine Wines Group Limited, which is an associated company of the Company and a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 828) (“**Dynasty Fine Wines**”).

As at the Latest Practicable Date, Mr. Bai has personal interest in share options to subscribe for a total of 1,100,000 shares in Dynasty Fine Wines. The said options were granted on 27 January 2005 and are exercisable during the period from 17 August 2005 to 26 January 2015 at an exercise price of HK\$3.00 per share.

Save as disclosed above, as at the Latest Practicable Date, Mr. Bai does not hold any other positions with the Company and other members of the Group and has no relationship with any Directors, senior management or substantial or controlling shareholders of the Company and does not have any interest in the Shares within the meaning of Part XV of the SFO.

There is no service contract between the Company and Mr. Bai. The director’s emolument payable to Mr. Bai will be determined by the Board with reference to market terms, performance, qualification and experience of Mr. Bai.

Save as disclosed above, there is no other matter relating to re-election of Mr. Bai as an executive Director that needs to be brought to the attention to the Shareholders.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. SHARE CAPITAL

<i>Authorised</i>		<i>HK\$</i>
3,000,000,000	Shares as at the Latest Practicable Date	300,000,000.00

*Issued and credited as fully paid*

910,656,027	Shares as at the Latest Practicable Date	91,065,602.70
20,000,000	Consideration Shares to be issued pursuant to the Agreement	2,000,000.00

*Shares agreed to be issued*

1. The Company adopted a share option scheme as approved in an extraordinary general meeting on 22 November 1997 under which the Directors may, at their discretion, invite any employees or executive directors of the Group to take up options to subscribe for Shares subject to the terms and conditions stipulated in the share option scheme.
2. On 19 December 2005, a subsidiary of the Company issued convertible bonds in the principal amount of HK\$400,000,000 which shall be due on 19 December 2008 (the "Convertible Bonds"). The Convertible Bonds are convertible into new Shares upon exercise by bondholders of conversion right attaching thereto at any time on or after 18 January 2006 up to the close of business on 12 December 2008 at the initial conversion price of HK\$3.90 per share (the "Conversion Price"). The Conversion Price shall be subject to (i) a one-time basis adjustment to HK\$4.06 per share on 19 December 2007, and (ii) other adjustment provisions of the terms and conditions of the Convertible Bonds.
3. Pursuant to an agreement dated 15 January 2004 entered into between Deltaway Inc. ("Deltaway") and the Company, the Company granted an option to Deltaway to subscribe for 90,000,000 new Shares at a subscription price of HK\$4.10 per share. The said option will expire on 24 February 2006.

## 3. DISCLOSURE OF INTERESTS BY DIRECTORS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the “Register”); or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in Shares*

Name of Director	Capacity	Nature of Interest	Number of Shares held	Approximate percentage of the issued Share
Wang Jiandong	Beneficial owner	Personal interest	450,000	0.05%

(ii) *Share options in the Company*

The Company adopted a share option scheme as approved in an extraordinary general meeting on 22 November 1997 under which the Directors may, at their discretion, invite any employees or executive directors of the Group to take up options to subscribe for Shares subject to the terms and conditions stipulated in the share option scheme. The details of share options granted to the Directors which are outstanding as at the Latest Practicable Date are as follows:

Name of Directors	Number of Shares over which options are exercisable	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Wang Guanghao	1,000,000	3.100	23 December 2004	28 December 2004	21 November 2007
Yu Rumin	900,000	3.100	23 December 2004	28 December 2004	21 November 2007
Ren Xuefeng	900,000	3.100	23 December 2004	28 December 2004	21 November 2007
Zhang Hongru	800,000	3.100	23 December 2004	28 December 2004	21 November 2007
Nie Jiansheng	700,000	3.100	23 December 2004	28 December 2004	21 November 2007

Name of Directors	Number of Shares over which options are exercisable	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Wang Jiandong	600,000	3.100	23 December 2004	28 December 2004	21 November 2007
Yang Liheng	300,000	3.100	23 December 2004	28 December 2004	21 November 2007
Sun Zengyin	300,000	3.100	23 December 2004	28 December 2004	21 November 2007
Pang Jinhua	300,000	3.100	23 December 2004	28 December 2004	21 November 2007
Ye Disheng	300,000	3.100	23 December 2004	28 December 2004	21 November 2007

(iii) Long positions in shares of associated corporation

Name of associated corporation	Name of Director	Capacity	Nature of interest	No. of shares held	Approximate percentage of shares in issue as at the Latest Practicable Date
Dynasty Fine Wines Group Limited	Wang Jiandong	Beneficial owner	Personal interest	17,307	0.001%

(iv) Share options in Dynasty Fine Wines, an associated corporation of the Company

Name of Directors	Number of shares over which options are exercisable	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Wang Guanghao	900,000	3.00	27 January 2005	17 August 2005	26 January 2015
Nie Jiansheng	1,950,000	3.00	27 January 2005	17 August 2005	26 January 2015
Bai Zhisheng	1,100,000	3.00	27 January 2005	17 August 2005	26 January 2015

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company were interested, or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the Register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Interests in competing businesses**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with any business of the Group.

**(c) Interests in assets of the Group**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.

**(d) Interests in contracts of the Company**

As at the Latest Practicable Date, no Director has entered into any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

Mr. Cheung Wing Yui, a non-executive Director, is a partner of Woo, Kwan, Lee & Lo, the Company's legal advisers on Hong Kong law in relation to the Agreement. Woo, Kwan, Lee & Lo will receive normal fees for professional services rendered in connection with the Agreement.

**(e) Material interest**

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

**4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares and 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 were, directly or

indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital were as follows:

(a) **Interests in the Company**

Name of Shareholder	Capacity	Number of Shares/ underlying Shares held	Approximate percentage of issued Shares
Tsinlien ( <i>Note 2</i> )	Interest of controlled corporations	582,485,143 (L)	63.96%
Deltaway Inc. ( <i>Note 3</i> )	Beneficial owner	90,000,000 (L)	9.89%
Pacific Foundation Assets Management Limited ( <i>Note 4</i> )	Interest of a controlled corporation	90,000,000 (L)	9.89%
Lo Shiu Wing, Chester ( <i>Note 4</i> )	Interest of controlled corporations	90,000,000 (L)	9.89%
Lo Tak Wing, Benson ( <i>Note 4</i> )	Interest of controlled corporations	90,000,000 (L)	9.89%
ABN AMRO Holding N.V. ( <i>Note 1</i> )	Interest of controlled corporation(s)	102,564,103 (L)	11.27%
	Custodian/approved lending agent	76,000(P)	0.01%

*Notes:*

- The letter "L" stands for the shareholder's long position (within the meaning of the SFO) in Shares. The letter "P" stands for lending pool.
- At the Latest Practicable Date, as revealed in the register maintained by the Company pursuant to the SFO, as Tianjin Investment Holdings Limited ("Tianjin Investment") and Tsinlien Venture Capital Company Limited (formerly known as Tsinlien Property Services Limited) ("Tsinlien Venture"), both being wholly-owned subsidiaries of Tsinlien, held 580,463,143 Shares and 2,022,000 Shares respectively. Mr. Wang Guanghao acted as trustee of Tianjin Investment held 10 Shares. By virtue of the SFO, Tsinlien is taken to have interest in all the Shares held by Tianjin Investment and Tsinlien Venture.  
  
As at the Latest Practicable Date, Tianjin Investment had disposed of 1,530,000 Shares and held 578,933,143 Shares. Together with 2,022,000 Shares held by Tsinlien Venture, and 10 Shares held by Mr. Wang Guanghao as trustee of Tianjin Investment, Tsinlien is taken to have interest in 580,955,143 Shares by virtue of the SFO, representing approximately 63.80% of the issued Shares.
- The interest of Deltaway Inc. (an independent third party) were held pursuant to the option agreement dated 15 January 2004 entered into between Deltaway Inc. and the Company whereby the Company granted an option to Deltaway Inc. to subscribe for 90,000,000 new Shares at a subscription price of HK\$4.10 per option share, for a consideration of HK\$2.4 million.
- Lo Shiu Wing, Chester, Lo Tak Wing, Benson and Pacific Foundation Assets Management Limited were deemed under the SFO to be interested in 90,000,000 Shares held by Deltaway Inc. pursuant to the option agreement as referred to in note 3 above.

As at the Latest Practicable Date, Mr. Wang Guanghao, Dr. Ren Xuefeng, Dr. Zhang Hongru and Mr. Nie Jiansheng are directors of Tsinlien.

**(b) Interests in other members of the Group**

<b>Name of subsidiary of the Company</b>	<b>Name of the other shareholders</b>	<b>Approximate percentage of shareholding</b>
Coastal Rapid Transit Company Limited	Starwell Holdings Limited	22.00%
Tianjin Jin Zheng Transportation Development Co., Ltd.	Tianjin Eastern Outer Ring Road Co., Ltd.	16.07%
Tianjin Mass Transit Development 5 Co., Ltd.	Tianjin Economic and Technological Development Investment Co., Ltd.	40.00%
Tianjin Mass Transit Development 2 Co., Ltd.	Tianjin Economic and Technological Development Investment Co., Ltd.	40.00%
Tianjin Mass Transit Development 4 Co., Ltd.	Tianjin Economic and Technological Development Investment Co., Ltd.	40.00%
Tianjin Mass Transit (Group) Development Co., Ltd.	Tianjin Economic and Technological Development Investment Co., Ltd.	40.00%
Tianjin Mass Transit Development 3 Co., Ltd.	Tianjin Economic and Technological Development Investment Co., Ltd.	40.00%
天津港保稅區長吳國際貿易有限公司 (Tianjin Port Tax Concession Zone Chang Hao International Trade Co., Ltd.*)	天津港保稅區聖笛而有限公司 (Tianjin Port Tax Concession Zone Sheng Di Er Co., Ltd.*)	10.00%
Tianjin Gangkai Container Service Co., Ltd.	Hong Kong Sun Hoi Enterprises Company Limited (香港新凱企業有限公司)	25.00%
Tianjin Tai Kang Industrial Co., Ltd.	Tianjin Tai Xin Industrial Co., Ltd.	17.26%
Tianjin Airfreight Port Equipment Manufacturing Company Limited	(1) Tianjin Tai Sing Industrial Co., Ltd.	10.06%
	(2) Tianjin Kang Sing Steel Equipment Engineering Co., Ltd.	10.26%
	(3) Civil Aviation University of China	10.48%
天津聯發物業管理有限公司 (Tianjin Lianfa Property Management Co., Ltd.*)	天津聯津投資有限公司 (Tianjin Lianjin Investment Co., Ltd.*)	10.00%
Tianjin Gangjin Real Estate Development Co., Ltd.	Tianjin Eastern Outer Ring Road Co., Ltd.	16.07%
(Tianjin Gangxin Container Logistics Co., Ltd.)	Gold Prime Holdings Limited	25.00%

Name of subsidiary of the Company	Name of the other shareholders	Approximate percentage of shareholding
(Tianjin Gangshi Container Services Co., Ltd.)	(1) Singapore Pacific Shipping Company Limited (新加坡太平船務有限公司)	25.00%
	(2) Sinotrans Container Shipping Company Limited (中外運集裝箱運輸有限公司)	20.00%
(Peace Bay (Tianjin) Power Battery Co., Ltd)	天津和平海灣電源集團有限公司	19.03%

\* English names of the PRC incorporated companies in this circular are only direct translations of their respective official Chinese names. In case of inconsistency, the Chinese names shall prevail.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any other person (other than Directors and chief executive of the Company) who had, or were deemed to have, interests or short positions in the shares and underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

## 5. MATERIAL CHANGE

So far as the Directors are aware, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited accounts of the Company were made up.

## 6. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

## 7. QUALIFICATIONS OF EXPERT

The following is the qualifications of the expert who has given opinion or advice which is contained or referred to in this circular:

Name	Qualifications
Baron	A licensed corporation under the SFO permitted to carry out types 1 and 6 regulated activities

**8. EXPERT'S INTERESTS**

As at the Latest Practicable Date, Baron had no shareholding interest in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group. As at the Latest Practicable Date, Baron had no direct or indirect interests in any assets which had since 31 December 2004 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. CONSENT OF EXPERT**

Baron has given and has not withdrawn its written consent to the issue of this circular in the form and context in which it appears.

**10. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to Article 73 of the articles of association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or unless a poll is (before or on the declaration of the results of the show of hands) demanded:

- (a) by the Chairman; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than 10% of the total voting rights of all members having the right to vote at the meeting; or
- (d) by any member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a member.

**11. GENERAL**

- (a) The registered office of the Company is situated at Suites 7-13, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (b) The company secretary and qualified accountant of the Company is Mr. Tsang Wai Yip, Patrick, who holds a bachelor degree in accountancy and is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (c) The share registrar of the Company is Tengis Limited of Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong whose address is the address of the transfer office of the Company.
- (d) The English text of this circular shall prevail over the Chinese text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Messrs. Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any week day, except public holidays, from the date of this circular up to and including 22 February 2006:

- (a) the Agreement;
- (b) the letter from Baron to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 26 to 49 of this circular; and
- (c) the letter of consent from Baron referred to in the paragraph headed "Consent of Expert" referred to in this appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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天津發展控股有限公司  
TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)  
(Stock code: 882)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Tianjin Development Holdings Limited (the “**Company**”) will be held at Salon II, Ballroom Level, The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong on 23 February 2006 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional sale and purchase agreement dated 10 January 2006 entered into by Tsinlien Group Company Limited (“**Tsinlien**”), Progress City Group Limited and the Company for the sale and purchase of approximately 90.9421% of its entire equity interest in 天津泰達津聯熱電有限公司 (Tianjin TEDA Tsinlien Heat & Power Co., Ltd) (the “**Agreement**”, a copy of which has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder the Agreement and any further agreement or document in connection therewith be and are hereby approved, ratified and/or confirmed; and
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant the listing of and permission to deal in the 20,000,000 new shares of HK\$0.10 each of the Company (each, a “**Consideration Share**”, and together the “**Consideration Shares**”), the directors of the Company be and are hereby authorized to allot and issue the Consideration Shares credited as fully paid at the issue price of HK\$3.745 per Consideration Share to Tsinlien or its designed wholly-owned subsidiaries pursuant to the terms of the Agreement and that the Consideration Shares shall, when allotted and issued, rank *pari passu* in all respects with all other shares of HK\$0.10 each in the capital of the Company in issue at the date of such allotment and issue; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized to do all such acts and things, to sign and execute all such other documents, deeds, instruments and agreements and to take such steps as he/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement and any further agreement or document as mentioned in paragraphs (a) and (b) above or any of the transactions contemplated therein and all other matters incidental thereto.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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2. “**THAT** Mr. Bai Zhisheng be and is hereby re-elected as an executive director of the Company.”

By order of the Board  
**Tianjin Development Holdings Limited**  
**Wang Guanghao**  
*Chairman*

Hong Kong, 4 February 2006

*Registered Office:*  
Suites 7-13, 36/F.,  
China Merchants Tower,  
Shun Tak Centre,  
168-200 Connaught Road Central,  
Hong Kong

**Notes:**

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share any one of such persons may vote, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.
- (3) A form of proxy for use at the meeting is enclosed with the circular to shareholders of the Company.
- (4) The instrument appointing a proxy must be in writing under the hand of the appointer or of his attorney duly authorized in writing, or if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
- (5) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the share registrar of the Company, Tengis Limited at Level 25, Three Pacific Place, 1 Queen’s Road East, Hong Kong, not less than 48 hours before the time appointed for the holding the meeting (or adjourned thereof, as the case may be).
- (6) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. If such member attends the meeting, his form of proxy will be deemed to have been revoked.
- (7) The translation into Chinese of this notice is for reference only. In case of any inconsistency, the English version shall prevail.