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

If you have sold or transferred all your shares in **Tianjin Development Holdings Limited** (天津發展控股有限公司), 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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天津發展 控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 882)

**RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS,
ENTERING INTO OF
NEW CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



红日资本有限公司

RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 20 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular. A letter from Red Sun Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 52 of this circular. A notice convening the EGM to be held at 24th Floor, Admiralty Centre, Tower I, 18 Harcourt Road, Hong Kong on 22 December 2021 (Wednesday) at 4:00 p.m. is set out on pages 58 to 60 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 4:00 p.m. on 20 December 2021 (Monday), or in case of any adjournment of the EGM, not less than 48 hours before the time appointed for holding of any adjournment meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 61 of this circular for the precautionary measures to be implemented at the EGM to ensure the health and safety of the attendees and to prevent the spreading of the Coronavirus Disease 2019 pandemic, which include without limitation:

1. compulsory wearing of surgical mask;
2. compulsory body temperature checks;
3. submission of health declaration form; and
4. no provision of refreshments or drinks and no distribution of corporate gifts or coupons.

Any person who does not comply with the precautionary measures may be denied entry into the venue of the EGM. The Company also encourages Shareholders to consider appointing the chairman of the EGM as his/her proxy to vote on the relevant resolutions at the EGM as an alternative to attending in person.

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DEFINITIONS

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

“2021 Entrusted Processing Master Agreement”	the entrusted manufacturing and processing master agreement dated 17 November 2021 entered into between the Company (as trustee) and Tianjin Pharmaceutical (as entrustor), pursuant to which members of the Tianjin Pharmaceutical Group may entrust members of the Group with the manufacturing, processing and the carrying out of other related work of certain Drugs for a term commencing from 1 January 2022 to 31 December 2024
“2021 Master Agreements”	collectively, the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement
“2021 Master Sales Agreement”	the master sales agreement dated 17 November 2021 entered into between the Company (as supplier) and Tianjin Pharmaceutical (as purchaser), in relation to the Sales Transactions for a term commencing from 1 January 2022 to 31 December 2024
“2021 Steam Purchase Master Agreement”	the steam purchase master agreement dated 17 November 2021 entered into between TEDA Holding (as supplier) and the Company (as purchaser), pursuant to which members of the Group may purchase Steam and Heat Power Products from members of the TEDA Holding Group for a term commencing from 1 January 2022 to 31 December 2024
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chemical Drug and Pharmaceutical Products”	chemical drug products manufactured by members of the Group and pharmaceutical printing and packaging products
“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 Stock Exchange (Stock Code: 882)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company

DEFINITIONS

“Drugs”	drugs other than those the manufacturing and processing of which are prohibited to be entrusted to qualified contract manufacturing organisation under the Drug MAH System of the PRC
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement and transactions contemplated thereunder (including the proposed annual caps)
“Existing Entrusted Processing Master Agreement”	the entrusted manufacturing and processing master agreement dated 19 January 2021 entered into between the Company (as trustee) and Tianjin Pharmaceutical (as entrustor), pursuant to which members of the Tianjin Pharmaceutical Group may entrust members of the Group with the manufacturing, processing and the carrying out of other related work of certain Drugs for a term commencing from 19 January 2021 to 31 December 2021
“Existing Master Sales Agreement”	the master sales agreement dated 6 December 2018 entered into between the Company (as supplier) and Tianjin Pharmaceutical (as purchaser) in relation to the Sales Transactions for a term commencing from 1 January 2019 to 31 December 2021
“Existing Steam Purchase Agreements”	collectively, (i) the steam purchase agreement dated 31 December 2020 entered into between Tianjin TEDA Energy Development (a wholly-owned subsidiary of TEDA Holding) (as supplier) and Tianjin TEDA Tsinlien Heat & Power (a subsidiary of the Company) (as purchaser), as amended by a supplemental agreement dated 31 March 2021, and (ii) the agreement dated 31 December 2020 entered into between Guohua Energy Development (a wholly-owned subsidiary of TEDA Holding) (as supplier) and Tianjin TEDA Tsinlien Heat & Power (as purchaser), as amended by a supplemental agreement dated 31 March 2021, in relation to the provision of Steam and Heat Power Products for the term of one year from 1 January 2021 to 31 December 2021
“Group”	the Company and its subsidiaries

DEFINITIONS

“Guohua Energy Development”	Guohua Energy Development (Tianjin) Co., Ltd. (國華能源發展(天津)有限公司), a state-owned enterprise established in the PRC which is indirectly wholly-owned by the Tianjin Government and is a wholly-owned subsidiary of TEDA Holding
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, which has been established to advise the Independent Shareholders in respect of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement and the transactions contemplated thereunder (including the proposed annual caps)
“Independent Financial Adviser” or “Red Sun Capital”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement and the transactions contemplated thereunder (including the proposed annual caps)
“Independent Shareholders”	the Shareholders who do not have a material interest in the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement, and excluding associates of TEDA Holding
“Latest Practicable Date”	30 November 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Transactions”	the sales of Chemical Drug and Pharmaceutical Products by members of the Group to members of the Tianjin Pharmaceutical Group
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares in the Company
“Steam and Heat Power Products”	steam and heat power products
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TEDA”	Tianjin Economic and Technological Development Area (天津經濟技術開發區)
“TEDA Holding”	Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司), a state-owned enterprise established in the PRC which is indirectly wholly-owned by the Tianjin Government and is an intermediate controlling Shareholder
“TEDA Holding Group”	TEDA Holding and its subsidiaries (other than members of the Group)
“Tianjin Bohai”	Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海國有資產經營管理有限公司), a state-owned enterprise established in the PRC which is indirectly wholly-owned by TEDA Holding and is an intermediate controlling Shareholder
“Tianjin Government”	the Tianjin Municipal People’s Government of the PRC
“Tianjin Pharmaceutical”	Tianjin Pharmaceutical Group Co., Ltd. (天津市醫藥集團有限公司), a state-owned enterprise established in the PRC which is directly held as to 33% by Tianjin Bohai
“Tianjin Pharmaceutical Group”	Tianjin Pharmaceutical and its subsidiaries

DEFINITIONS

“Tianjin TEDA Energy Development”	Tianjin TEDA Energy Development Co., Ltd. (天津泰達能源發展有限責任公司), a state-owned enterprise established in the PRC which is indirectly wholly-owned by the Tianjin Government and is a subsidiary of TEDA Holding
“Tianjin TEDA Tsinlien Heat & Power”	Tianjin TEDA Tsinlien Heat & Power Co., Ltd. (天津泰達津聯熱電有限公司), a company established in the PRC and a subsidiary of the Company
“Tsinlien”	Tsinlien Group Company Limited (津聯集團有限公司), a company incorporated in Hong Kong with limited liability and a controlling Shareholder directly and indirectly holding approximately 62.81% of the total number of issued shares of the Company as at the Latest Practicable Date
“%”	per cent.

English names of the PRC-established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

In this circular, RMB has been converted to HK\$ at the rate of RMB0.834 = HK\$1.00 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.

LETTER FROM THE BOARD



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 882)

Executive Directors:

Mr. Zhang Bingjun (*Chairman*)
Mr. Chen Yanhua (*General Manager*)
Dr. Li Xiaoguang
Mr. Zhuang Qifei
Mr. Cui Xiaofei

Registered office:

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

Non-Executive Director:

Mr. Cheung Wing Yui, Edward

Independent Non-Executive Directors:

Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu

3 December 2021

To the Shareholders

Dear Sirs,

**RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS,
ENTERING INTO OF
NEW CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 17 November 2021 in relation to the 2021 Master Agreements and the respective transactions contemplated thereunder which constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the Existing Steam Purchase Agreements, the Existing Master Sales Agreement and the Existing Entrusted Processing Master Agreement will expire on 31 December 2021, on 17 November 2021, the Company entered into, among others, (i) the 2021 Steam Purchase Master Agreement, and (ii) the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement respectively with TEDA Holding and Tianjin Pharmaceutical to renew (and, in the case of the 2021 Steam Purchase Master Agreement, create framework agreement for) the continuing connected transactions contemplated under the Existing Steam Purchase Agreements, the Existing Master Sales Agreement and the Existing Entrusted Processing Master Agreement for a term of three years commencing from 1 January 2022 to 31 December 2024.

The purpose of this circular is to provide you with (i) details of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement and the respective transactions contemplated thereunder (including the proposed annual caps); (ii) the recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from Red Sun Capital to the Independent Board Committee and the Independent Shareholders; (iv) a notice convening the EGM; and (v) other information as required under the Listing Rules.

(A) THE 2021 STEAM PURCHASE MASTER AGREEMENT

Date

17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as purchaser); and
- (2) TEDA Holding (for itself and on behalf of its subsidiaries) (as supplier).

Subject matter

Members of the Group may from time to time purchase Steam and Heat Power Products from members of the TEDA Holding Group for use in their operation.

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

LETTER FROM THE BOARD

Pricing policy

The price of the Steam and Heat Power Products will be determined in accordance with the government guidance prices, the rate of return and the standard of quality of products, and in particular with reference to the followings:

- (1) guidance prices of the prices of natural gas for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC from time to time and the current transacted coal prices of local coal exchange or market in the PRC;
- (2) the rate of return of capital (with reference to the rate of return of capital as stipulated in the Energy Products Subsidy Plan in TEDA (天津開發區能源產品補貼方案) issued by the TEDA Finance Bureau from time to time); and
- (3) the standard of quality of the Steam and Heat Power Products as specified in the individual purchase contract(s).

The relevant member(s) of the Group will pay the relevant member(s) of the TEDA Holding Group in accordance with the detailed payment terms as set out in the individual purchase contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Steam Purchase Master Agreement. In general, the consideration for the Steam and Heat Power Products consumed which is payable by the relevant member(s) of the Group under the individual purchase contract(s) to the relevant member(s) of the TEDA Holding Group will be invoiced every month and paid via bank transfer within the 15th day of the next calendar month. In addition, the terms of each individual transaction (including but not limited to the quality and technical requirements of the Steam and Heat Power Products, production coordination and measurement, price and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms.

Conditions precedent

The 2021 Steam Purchase Master Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and
- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

LETTER FROM THE BOARD

Historical figures and the proposed annual caps

Set out below are (i) the historical transaction amounts paid by the Group to the TEDA Holding Group in respect of the transactions carried out under the Existing Steam Purchase Agreements for the two years ended 31 December 2020 and the nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the nine months ended 30 September 2021
Historical amounts	RMB783,394,136 (approximately HK\$939,321,506)	RMB738,980,073 (approximately HK\$886,067,234)	RMB630,087,482 (approximately HK\$755,500,578)
	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps	RMB1,040,000,000 (approximately HK\$1,247,002,398)	RMB1,120,000,000 (approximately HK\$1,342,925,659)	RMB1,130,000,000 (approximately HK\$1,354,916,067)

The abovementioned proposed annual caps were determined with reference to the expected demand of Steam and Heat Power Products of the Group from the TEDA Holding Group during the term, the latest government guidance prices for the natural gas, the current transacted coal prices of the local coal exchange or market in the PRC required to produce the Steam and Heat Power Products and the recent market price of such products in the nearby regions.

Before 28 April 2021, members of the TEDA Holding Group were not connected persons of the Company, and the previous purchase transactions did not constitute continuing connected transactions of the Company. As disclosed in the announcements of the Company dated 30 October 2020 and 30 April 2021, after completion of an internal integration, TEDA Holding became an intermediate controlling Shareholder and a connected person of the Company. Members of the TEDA Holding Group also became connected persons of the Company by virtue of their being associates of TEDA Holding. In compliance with Rule 14A.60 of the Listing Rules, the Company published the announcement dated 30 April 2021 disclosing the Existing Steam Purchase Agreements and the purchase transactions thereunder.

LETTER FROM THE BOARD

Reasons for and benefits of the entering into of the 2021 Steam Purchase Master Agreement

The Group has been involved in the heat supply industry in TEDA since 2006 and has continued to supply heat and thermal power to industrial, commercial and residential customers in TEDA over the years. The entering into of the 2021 Steam Purchase Master Agreement with TEDA Holding will enable the Group to maintain an uninterrupted supply of heat and thermal power to its customers and is essential for the effective, efficient and continuous operation of the Group's utilities businesses in TEDA.

(B) THE 2021 MASTER SALES AGREEMENT

Date

17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as supplier); and
- (2) Tianjin Pharmaceutical (for itself and on behalf of its subsidiaries) (as purchaser).

Subject matter

Members of the Group may from time to time sell Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group according to their needs.

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

Pricing policy

The prices of the Chemical Drug and Pharmaceutical Products will be determined in accordance with the following principles:

- (1) the members of the Group will sell the Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group in accordance with the following pricing policies which are equally applicable to independent third party customers:
 - (i) the price (the "**Annual Price**") of each of the Chemical Drug and Pharmaceutical Products will be determined on an annual basis with reference to the costs of production, past/projected profit margin (which may range from 5% to 90% depending on the product category), the market conditions

LETTER FROM THE BOARD

(e.g. the market demand for such category of products and the availability of similar or comparable products in the market) and the price of similar products offered by at least two independent third party suppliers in the same region;

- (ii) such Annual Price may be adjusted from time to time according to the market conditions (e.g. fluctuations in the costs of raw materials and changes in market demand) and shall be reviewed regularly; and
- (2) the members of the Group may, based on the transaction quantity and payment terms, offer to the members of the Tianjin Pharmaceutical Group the same discount which the Group would offer to its independent third party customers.

The table below sets out the average profit margin in respect of each category of the Chemical Drug and Pharmaceutical Products during the period for the nine months ended 30 September 2021:

Category of products	Average profit margin (approx. %)
Tablets	68%
Capsules	36%
Injection medicines	43%
Other forms of chemical drug products	32%
Pharmaceutical printing and packaging products	25%

The relevant member(s) of the Tianjin Pharmaceutical Group will pay the relevant member(s) of the Group in accordance with the detailed payment terms as set out in the individual sales contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Master Sales Agreement. In general, the consideration for the Chemical Drug and Pharmaceutical Products sold which is payable by the relevant member(s) of the Tianjin Pharmaceutical Group under the individual sale contract(s) to the relevant member(s) of the Group will be invoiced every month and paid via bank transfer within 60 days upon delivery of the products and the passing of the product inspection. In addition, the terms of each individual transaction (including but not limited to delivery, return of goods, consideration and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms and shall be on terms which are no more favourable than those which the Group would offer to other independent third party customers.

LETTER FROM THE BOARD

Conditions precedent

The 2021 Master Sales Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and
- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

Historical figures and the proposed annual caps

Set out below are (i) the historical transaction amounts paid by the Tianjin Pharmaceutical Group to the Group in respect of the transactions carried out under the Existing Master Sales Agreement for the two years ended 31 December 2020 and the nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the nine months ended 30 September 2021
Historical amounts	RMB72,424,622 (approximately HK\$86,840,074)	RMB62,945,738 (approximately HK\$75,474,506)	RMB46,165,310 (approximately HK\$55,354,089)
	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps	RMB90,000,000 (approximately HK\$107,913,669)	RMB110,000,000 (approximately HK\$131,894,484)	RMB135,000,000 (approximately HK\$161,870,504)

The existing annual caps for each of the three years ending 31 December 2021 as set out in the Existing Master Sales Agreement are RMB90,000,000, RMB103,000,000 and RMB119,000,000 respectively.

LETTER FROM THE BOARD

The decreases in the historical transaction amounts for the year ended 31 December 2020 and for the nine months ended 30 September 2021 were mainly attributable to (i) the weaker demand stemmed from the outbreak of Coronavirus Disease 2019 (“COVID-19”) in 2020; and (ii) the decrease in demand from the relevant member(s) of the Tianjin Pharmaceutical Group during the period caused by one major tablet product not having obtained the consistency evaluation.

The abovementioned proposed annual caps were determined with reference to (i) the historical transaction amounts in respect of the Sales Transactions; (ii) the projected level of demand for the Chemical Drug and Pharmaceutical Products by members of the Tianjin Pharmaceutical Group, which has extensive distribution networks that cover most of the major retail pharmacy groups, clinics and hospitals in Tianjin; (iii) the PRC’s policy to promote the pharmaceutical industry; (iv) the anticipation of more products passing the consistency evaluation and becoming eligible to take part in the centralised drug procurement program during the three years ending 31 December 2024; and (v) an estimated buffer in response to fluctuation of market prices.

Reasons for and benefits of the entering into of the 2021 Master Sales Agreement

Members of the Group had in their ordinary course of business been selling the Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group in the past. The Directors are of the view that the continuation of the Sales Transactions will enable the Company to maintain its long-term cooperative relationship with the Tianjin Pharmaceutical Group while taking advantage of its wide customer base and extensive distribution network, thus providing a stable source of income for the Group.

(C) THE 2021 ENTRUSTED PROCESSING MASTER AGREEMENT

Date

17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as trustee); and
- (2) Tianjin Pharmaceutical (for itself and on behalf of its subsidiaries) (as entrustor).

Subject matter

Members of the Tianjin Pharmaceutical Group may from time to time entrust members of the Group with the carrying out of manufacturing, processing, quality control, inspection, warehousing and other related work in respect of the Drugs.

LETTER FROM THE BOARD

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

Pricing basis

The manufacturing and processing fees will be determined in accordance with the following principles:

- (1) the members of the Group will, in accordance with the following pricing policies which are equally applicable to independent third party customers, and with reference to other factors including market conditions and fees charged by at least two independent third parties for the manufacturing and processing of similar Drugs, charge the members of the Tianjin Pharmaceutical Group the following manufacturing and processing fees:
 - (i) *for raw materials and packaging materials*: the relevant costs of procurement;
 - (ii) *for production inputs other than raw materials and packaging materials and for work done including entrusted manufacturing and processing*: total costs plus a profit margin of approximately 20% to 45%; and
- (2) the members of the Group may, based on the production quantity and payment terms, offer to the members of the Tianjin Pharmaceutical Group the same discount which the Group would offer to its independent third party customers.

The relevant member(s) of the Tianjin Pharmaceutical Group will pay the relevant member(s) of the Group in accordance with the detailed payment terms as set out in the individual contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Entrusted Processing Master Agreement. In general, the manufacturing and processing fees payable by the relevant member(s) of the Tianjin Pharmaceutical Group under the individual contract(s) to the relevant member(s) of the Group will be invoiced on the 20th day of each calendar month and paid via bank transfer within the same calendar month. In addition, the terms of each individual transaction (including but not limited to process, quality control, production safety, fees and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms.

LETTER FROM THE BOARD

Conditions precedent

The 2021 Entrusted Processing Master Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and
- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

Historical figures and the proposed annual caps

Set out below are (i) the historical transaction amount paid by the Tianjin Pharmaceutical Group to the Group in respect of the transactions carried out under the Existing Entrusted Processing Master Agreement (including the fees for (a) raw materials and packaging materials and (b) other production and work done) for the nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the nine months ended 30 September 2021		
Historical amount			RMB5,574,200 (approximately HK\$6,683,693)
	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps	RMB80,000,000 (approximately HK\$95,923,261)	RMB90,000,000 (approximately HK\$107,913,669)	RMB100,000,000 (approximately HK\$119,904,077)

As set out in the Existing Entrusted Processing Master Agreement, the cap amount for the term thereunder from 19 January 2021 to 31 December 2021 is RMB55,000,000.

LETTER FROM THE BOARD

The abovementioned proposed annual caps were determined with reference to (i) the manufacturing plans of the Tianjin Pharmaceutical Group during the term of the 2021 Entrusted Processing Master Agreement; (ii) the expected Drug manufacturing and processing capacity of the Group; and (iii) it is expected that certain products under the entrusted processing arrangement will pass the consistency evaluation and become eligible to participate in the centralised drug procurement program in the future, resulting in a higher volume of contracts to be entered into and higher annual transaction amounts during the three years ending 31 December 2024.

Reasons for and benefits of the entering into of the 2021 Entrusted Processing Master Agreement

The relevant member(s) of Tianjin Pharmaceutical Group includes drug market authorised licence holders which are allowed to use qualified contract manufacturing organisation to manufacture pharmaceutical products. Members of the Group, being qualified contract manufacturing organisations, may take advantage of the business opportunities under the Drug MAH System in the pharmaceutical outsourcing industry in the PRC through the entering into of the 2021 Entrusted Processing Master Agreement and the transactions contemplated thereunder. In addition, the entering into of the 2021 Entrusted Processing Master Agreement also allows the Group to fully utilise its production capacity and provide the Group with a steady source of income.

INTERNAL CONTROL MEASURES

In order to ensure that the transactions contemplated under the 2021 Master Agreements will be conducted in accordance with its terms and the pricing policies and within the respective proposed cap amounts, the Group has in place the following internal control measures to monitor the transactions:

(1) in respect of the 2021 Steam Purchase Master Agreement

The members of the Group will regularly keep track of the offered prices for the Steam and Heat Power Products and, where available, compare them with those offered by at least two independent third parties under the supervision of the finance department of the relevant Group members to ensure that the fees or prices for the aforementioned products are conducted on normal commercial terms and in accordance with the pricing policies in respect of the 2021 Steam Purchase Master Agreement.

(2) in respect of the 2021 Master Sales Agreement

The general managers of the relevant Group members will be responsible for determining the Annual Prices of the Chemical Drug and Pharmaceutical Products at the beginning of each year and review such Annual Prices to make adjustments from time to time where necessary in response to market situations, including, among others, fluctuations in raw material costs and changes in market demands. The Group will regularly review the market price of the Chemical Drug and Pharmaceutical Products under the supervision of

LETTER FROM THE BOARD

the finance department of the relevant Group members and compare the selling price of the Chemical Drug and Pharmaceutical Products with similar products on the market before the approval of separate sales contract(s) between members of the Group and members of the Tianjin Pharmaceutical Group in order to ensure that the actual selling price of the Chemical Drug and Pharmaceutical Products and discount to be offered will be no more favourable than those offered to independent third party customers and that the Sales Transactions are conducted in the interests of the Group.

The sales departments of the relevant member(s) of the Group will review and approve the prices of and terms under which the relevant Chemical Drug and Pharmaceutical Products are offered to the relevant member(s) of the Tianjin Pharmaceutical Group in order to ensure that the transactions are conducted on normal commercial terms, in accordance with the proposed annual caps set by the Company, and the terms are no more favourable than those offered to independent third party customers.

The Group will also inform all its sales agents of the fixed prices of the Chemical Drug and Pharmaceutical Products, and the sales of Chemical Drug and Pharmaceutical Products must be processed at such fixed prices until further notice from the Group. The Group will also ensure that the same sales policy is applied to both independent third parties as well as the Tianjin Pharmaceutical Group. The sales department of the relevant Group members will also monitor the transaction amounts in order to prevent the aggregated sales amount of the Sales Transactions from exceeding the relevant annual caps.

(3) in respect of the 2021 Entrusted Processing Master Agreement

The personnel and management of the relevant Group members will conduct regular checks to review and assess whether individual transactions are conducted in accordance with the terms of the 2021 Entrusted Processing Master Agreement, including but not limited to:

- (a) if a comparable market price is available, the Group will compare the proposed fees against market price to ensure that the proposed fees will not be lower than the fees for similar nature of service provided by independent third party manufacturers;
- (b) if no comparable market price is available, the Group will conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on the value of the relevant service and the actual costs and expenses incurred; and
- (c) after arm's length negotiation with the relevant connected person, the relevant members of the Group will report to their management who will approve individual transactions as appropriate.

LETTER FROM THE BOARD

(4) in respect of all of the 2021 Master Agreements

- (a) The financial management department of the relevant members of the Group will be responsible for preparing the accounting records, reporting, and statistical analysis of the continuing connected transactions, and for submitting the same to the Group on a regular basis. The relevant financial management department will also collect and monitor the transaction amounts of the continuing connected transactions on a quarterly basis to ensure timely assessment on whether the annual caps are exceeded; and
- (b) the external auditors and independent non-executive Directors of the Company will review the transactions contemplated under the 2021 Master Agreements to check and confirm, among other things, whether the pricing policies have been adhered to and whether the proposed cap amounts have been exceeded.

INFORMATION ON THE PARTIES

The principal activity of the Company is investment holding. The principal activities of the Group are (i) utilities including supply of electricity, water and heat and thermal power; (ii) pharmaceutical including manufacture and sale of chemical drugs, and research and development of new medicine technology and new products, as well as design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials; (iii) hotel; (iv) electrical and mechanical including the manufacture and sale of presses, mechanical and hydroelectric equipment and large scale pump units; and (v) strategic and other investments including investments in associates which are principally engaging in the manufacture and sale of elevators and escalators and provision of port services in Tianjin.

TEDA Holding, the indirect controlling Shareholder, is a state-owned enterprise established in the PRC which principally engages in regional development, public utilities, finance and modern services.

Tianjin Pharmaceutical is a state-owned enterprise established in the PRC which is directly held as to 33% by Tianjin Bohai, which is in turn indirectly wholly-owned by TEDA Holding. It principally engages in the manufacture and sale of a broad range of pharmaceutical products, research and development, and provision of related consultancy service.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Tianjin Bohai, an indirect wholly-owned subsidiary of TEDA Holding, indirectly holds a total of 673,759,143 shares of the Company, representing approximately 62.81% of the total issued shares of the Company, TEDA Holding and its subsidiaries are therefore connected persons of the Company as defined in the Listing Rules. In addition, Tianjin Bohai directly holds 33% equity interest in Tianjin Pharmaceutical, Tianjin Pharmaceutical is therefore an associate of Tianjin Bohai and also a connected person of the Company as defined in the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (other than the profits ratio) calculated based on the proposed annual caps for the respective transactions contemplated under each of the 2021 Master Agreements exceeds 5%, the entering into of the 2021 Master Agreements and the respective transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the 2021 Master Agreements and the transactions contemplated thereunder. Notwithstanding, as Mr. Cheung Wing Yui, Edward, non-executive Director, is a consultant of Messrs. Woo Kwan Lee & Lo which provides legal and professional services to the Company in respect of the 2021 Master Agreements, he has voluntarily abstained from voting on the Board resolution for approving the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps).

EGM

An EGM will be convened at which ordinary resolutions will be proposed, if thought fit, to approve the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps). The associates of TEDA Holding will abstain from voting on those resolutions.

A notice convening the EGM to be held at 24th Floor, Admiralty Centre, Tower I, 18 Harcourt Road, Hong Kong on 22 December 2021 (Wednesday) at 4:00 p.m. is set out on pages 58 to 60 of this circular. A form of proxy for use at the EGM is also enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 4:00 p.m. on 20 December 2021 (Monday), or in case of any adjournment of the EGM, not less than 48 hours before the time appointed for the holding of any adjournment meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, all resolutions set out in the notice of EGM will be taken by way of poll.

An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of each of the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps). Red Sun Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on page 21 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders; and (ii) the letter from Red Sun Capital as set out on pages 22 to 52 of this circular which contains the advice from Red Sun Capital to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps) and reasons considered by Red Sun Capital in arriving at its advice.

The Directors (including the independent non-executive Directors after considering the advice of Red Sun Capital) consider that (i) the entering into of the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps) is in the ordinary and usual course of business of the Group, and (ii) the terms thereof are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors would therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps).

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Tianjin Development Holdings Limited
Chen Yanhua
Executive Director and General Manager



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 882)

3 December 2021

To the Independent Shareholders

Dear Sirs,

**RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS
AND
ENTERING INTO OF
NEW CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 3 December 2021 (the “Circular”) of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the 2021 Master Agreements (including the proposed annual caps) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Red Sun Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 20 of the Circular and the letter from Red Sun Capital as set out on pages 22 to 52 of the Circular.

Having considered the terms of the 2021 Master Agreements (including the proposed annual caps) and the respective transactions contemplated thereunder and taking into account the principal factors and reasons considered by, and the advice of Red Sun Capital, we consider that (i) the entering into of the 2021 Master Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and (ii) the terms of the 2021 Master Agreements (including the proposed annual caps) are on normal commercial terms and are fair and reasonable. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps).

Yours faithfully,
The Independent Board Committee
Tianjin Development Holdings Limited
Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu
Independent non-executive Directors

LETTER FROM RED SUN CAPITAL

The following is the text of the letter of advice from Red Sun Capital Limited to the Independent Shareholders and the Independent Board Committee in relation to the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps) prepared for the purpose of incorporation in this circular.



紅日資本有限公司
RED SUN CAPITAL LIMITED

Unit 3303, 33/F, West Tower,
Shun Tak Centre,
168–200 Connaught Road Central,
Hong Kong

Tel: (852) 2857 9208
Fax: (852) 2857 9100

3 December 2021

*To: The Independent Shareholders and the Independent Board Committee of
Tianjin Development Holdings Limited*

Dear Sir or Madam,

**RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS
AND
ENTERING INTO OF
NEW CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of 2021 Master Agreements, which comprised of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement, and the respective transactions contemplated thereunder (including the proposed annual caps), details of which are set out in the letter from the board (the “**Letter from the Board**”) in the circular of the Company dated 3 December 2021 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

As the Existing Steam Purchase Agreements, the Existing Master Sales Agreement and the Existing Entrusted Processing Master Agreement will expire on 31 December 2021, on 17 November 2021, the Company entered into, among others, (i) the 2021 Steam Purchase Master Agreement; and (ii) the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement respectively with (i) TEDA Holding; and (ii) Tianjin Pharmaceutical to renew (and, in the case of the 2021 Steam Purchase Master Agreement, create framework agreement for) the continuing connected transactions contemplated under the Existing Steam Purchase Agreements, the Existing Master Sales Agreement and the Existing Entrusted Processing Master Agreement for a term of three years commencing from 1 January 2022 to 31 December 2024.

LETTER FROM RED SUN CAPITAL

Listing Rules implications

As at the Latest Practicable Date, Tianjin Bohai, an indirect wholly-owned subsidiary of TEDA Holding, indirectly holds a total of 673,759,143 shares of the Company, representing approximately 62.81% of the total issued shares of the Company, TEDA Holding and its subsidiaries are therefore connected persons of the Company as defined in the Listing Rules. In addition, Tianjin Bohai directly holds 33% equity interest in Tianjin Pharmaceutical, Tianjin Pharmaceutical is therefore an associate of Tianjin Bohai and also a connected person of the Company as defined in the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) calculated based on the proposed annual caps for the respective transactions contemplated under each of the 2021 Master Agreements exceeds 5%, the entering into of the 2021 Master Agreements and the respective transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened at which ordinary resolutions will be proposed, if thought fit, to approve the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps). The associates of TEDA Holding will abstain from voting on the relevant resolutions.

THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises (i) five executive Directors, namely, Mr. Zhang Bingjun, Mr. Chen Yanhua, Dr. Li Xiaoguang, Mr. Zhuang Qifei, Mr. Cui Xiaofei; (ii) one non-executive Director, namely, Mr. Cheung Wing Yui, Edward; and (iii) five independent non-executive Directors, namely, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander, Ms. Ng Yi Kum, Estella, Mr. Wong Shiu Hoi, Peter and Dr. Loke Yu.

The Independent Board Committee comprising all the independent non-executive Directors has been established to make a recommendation to the Independent Shareholders in relation to the 2021 Master Agreements, which comprised of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement, the 2021 Entrusted Processing Master Agreement, and the respective transactions contemplated thereunder (including the proposed annual caps) as to (i) whether the transactions contemplated under the 2021 Master Agreements (including the proposed annual caps) are conducted in the ordinary and usual course of business, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM.

LETTER FROM RED SUN CAPITAL

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, TEDA Holding and Tianjin Pharmaceutical and their respective shareholders, directors or chief executives, or any of their respective associates, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2021 Master Agreements and the respective transactions contemplated thereunder (including the proposed annual caps). Save for our appointment as the independent financial adviser in respect of the (i) the disposal of the entire equity interest in Tianjin Heavenly Palace Winery Co., Ltd. by the Company, details of which are set out in the circular of the Company dated 31 July 2020; and (ii) the disposal of 78.45% of equity interest in Tianjin Tianduan Press Co., Ltd. by the Company, details of which are set out in the announcement of the Company dated 26 August 2021, Red Sun Capital has not acted as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, TEDA Holding and Tianjin Pharmaceutical, and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group, its senior management (the “**Management**”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management, and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group, the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the Latest Practicable Date and up to the date of EGM. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company, the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

LETTER FROM RED SUN CAPITAL

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group, the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group and its respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the 2021 Master Agreements and the transactions contemplated thereunder (including the proposed annual caps), is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the 2021 Master Agreements and the respective transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information on the Group, TEDA Holding and Tianjin Pharmaceutical

1.1 Background information of the Group

Tsinlien, which owned approximately 62.8% of the Company's issued share capital, is the controlling shareholder of the Group. Tsinlien is a state-owned enterprise and ultimately controlled by the Tianjin Municipal People's Government of the PRC.

The principal activities of the Group are (i) utilities including supply of electricity, water and heat and thermal power; (ii) pharmaceutical including manufacture and sale of chemical drugs, and research and development of new medicine technology and new products, as well as design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials; (iii) hotel; (iv) electrical and mechanical including the manufacture and sale of presses, mechanical and hydroelectric equipment and large scale pump units; and (v) strategic and other investments including investments in associates which are principally engaging in the manufacture and sale of elevators and escalators and provision of port services in Tianjin.

LETTER FROM RED SUN CAPITAL

Summary of the historical financial performance of the Group

Set out below is a summary of the Group's financial performance for the two years ended 31 December 2019 and 2020 and the six months ended 30 June 2020 and 2021, which were extracted from the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report") and the Company's interim report for the six months ended 30 June 2021 (the "2021 Interim Report"), respectively:

<i>(HK\$' million)</i>	For the six months ended 30 June		For the year ended 31 December	
	2021	2020	2020	2019
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue from continuing operations, comprised of:	2,015.6	1,701.4	3,746.2	4,549.1
– Utilities	791.5	677.2	1,265.2	1,412.6
– Pharmaceutical	779.0	738.0	1,408.9	1,903.4
– Hotel	17.6	14.4	34.8	105.8
– Electrical and mechanical	427.5	271.8	1,037.3	1,127.3
Gross profit from continuing operations	571.8	533.5	1,049.7	1,599.9
Profit for the period/year attributable to the owners of the Company from continuing operations	263.9	114.5	294.5	326.7

For the six months ended 30 June 2020 and 2021

As disclosed in the 2021 Interim Report, the revenue of the Group from continuing operations increased by approximately HK\$314.2 million or 18.5% from approximately HK\$1,701.4 million for the six months ended 30 June 2020 to approximately HK\$2,015.6 million for the six months ended 30 June 2021. The gross profit from continuing operations increased by approximately HK\$38.3 million or 7.2% from approximately HK\$533.5 million for the six months ended 30 June 2020 to approximately HK\$571.8 million for the six months ended 30 June 2021. The increase in revenue and gross profit of the Group from continuing operations were primarily due to (i) the increase in revenue from the electrical and mechanical segment of approximately HK\$155.7 million, which was primarily owing to certain contract works completed in the hydroelectric equipment business; (ii) the increase in revenue from the utilities segment of approximately HK\$114.3 million, which was mainly a result of increase in sales of water due to tariff adjustment and increase in sales of heat and thermal power due to higher volumes of steam sold; and (iii) the increase in revenue from the pharmaceutical segment of approximately HK\$41.0 million, which was mainly due to higher volume in sales of pharmaceutical products business.

LETTER FROM RED SUN CAPITAL

Profit for the year attributable to owners of the Company from continuing operations increased by approximately HK\$149.4 million or 130.5% from approximately HK\$114.5 million for the six months ended 30 June 2020 to approximately HK\$263.9 million for the six months ended 30 June 2021. Such increase was mainly due to the net effects of (i) the increase in revenue and gross profit as mentioned above; (ii) the increase in share of net profit of several associates and joint ventures of the Company of approximately HK\$127.8 million; (iii) the increase in general and administrative expenses of approximately HK\$47.8 million; and (iv) the decrease in selling and distribution expenses of approximately HK\$39.8 million.

For the years ended 31 December 2019 and 2020

As disclosed in the 2020 Annual Report, the revenue of the Group from continuing operations decreased by approximately HK\$802.9 million or 17.6% from approximately HK\$4,549.1 million for the year ended 31 December 2019 to approximately HK\$3,746.2 million for the year ended 31 December 2020. The gross profit from continuing operations decreased by approximately HK\$550.2 million or 34.4% from approximately HK\$1,599.9 million for the year ended 31 December 2019 to approximately HK\$1,049.7 million for the year ended 31 December 2020. The decrease in revenue and gross profit of the Group from continuing operations were primarily due to (i) the decrease in revenue from the pharmaceutical segment of approximately HK\$494.5 million, which was primarily attributable to lower sales volume and lower operating margins for sales of pharmaceutical products business as it was adversely affected by the outbreak of Coronavirus Disease 2019 (“COVID-19”) at the beginning of 2020 and the increased price competition; and (ii) the decrease in revenue from the utilities segment of approximately HK\$147.4 million, which was mainly a result of decrease in sales of water due to volume sold decreased by approximately 13.9% and tariff adjustment and decrease in sales of heat and thermal power due to the decrease in government supplemental income by approximately HK\$78 million.

Profit for the year attributable to owners of the Company from continuing operations decreased by approximately HK\$32.2 million or 9.9% from approximately HK\$326.7 million for the year ended 31 December 2019 to approximately HK\$294.5 million for the year ended 31 December 2020. Such decrease was mainly due to the net effects of (i) the decrease in revenue and gross profit as mentioned above; (ii) the decrease in selling and distribution expenses of approximately HK\$314.7 million; and (iii) the increase in share of net profit of several associates and joint ventures of the Company of approximately HK\$142.3 million.

LETTER FROM RED SUN CAPITAL

Summary of the historical financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2019, 31 December 2020 and 30 June 2021, which were extracted from the 2020 Annual Report and the 2021 Interim Report:

<i>(HK\$' million)</i>	As at 30 June 2021 <i>(unaudited)</i>	As at 31 December 2020 2019 <i>(audited)</i> <i>(audited)</i>	
Non-current assets	12,629.1	12,538.2	12,017.5
Current assets	11,684.1	11,341.2	10,538.6
Non-current liabilities	2,241.3	2,257.1	2,229.3
Current liabilities	4,707.2	4,581.5	4,435.1
 Total equity attributable to owners of the Company	 12,507.3	 12,261.7	 11,362.4

As disclosed in the 2021 Interim Report, total assets of the Group as at 30 June 2021 mainly comprised of (i) investments accounted for using the equity method of approximately HK\$6,937.5 million; (ii) cash and cash equivalents of approximately HK\$3,427.5 million; (iii) property, plant and equipment of approximately HK\$2,877.6 million; (iv) time deposits with maturity over three months of approximately HK\$2,427.0 million; (v) equity instruments at fair value through other comprehensive income of approximately HK\$1,749.6 million; and (vi) entrusted deposits of approximately HK\$1,640.6 million. Total liabilities of the Group as at 30 June 2021 mainly included (i) bank borrowings of approximately HK\$2,294.6 million; (ii) contract liabilities of approximately HK\$1,444.3 million; (iii) other payables and accruals of approximately HK\$1,108.2 million; and (iv) trade payables of approximately HK\$1,090.7 million. The Group recorded total equity attributable to owners of the Company of approximately HK\$12,507.3 million as at 30 June 2021, representing an increase of approximately 2.0% from approximately HK\$12,261.7 million as at 31 December 2020.

Total assets of the Group as at 31 December 2020 mainly comprised of (i) investments accounted for using the equity method of approximately HK\$6,832.2 million; (ii) cash and cash equivalents of approximately HK\$4,330.7 million; (iii) property, plant and equipment of approximately HK\$2,879.7 million; (iv) time deposits with maturity over three months of approximately HK\$2,115.3 million; (v) equity instruments at fair value through other comprehensive income of approximately HK\$1,791.8 million; and (vi) entrusted deposits of approximately HK\$1,175.8 million. Total liabilities of the Group as at 31 December 2020 mainly included (i) bank borrowings of approximately HK\$2,329.7 million; (ii) contract liabilities of approximately HK\$1,411.0 million; (iii) trade payables of approximately HK\$1,123.7 million; and (iv) other payables and accruals of

approximately HK\$1,058.6 million. The Group recorded total equity attributable to owners of the Company of approximately HK\$12,261.7 million as at 31 December 2020, representing an increase of approximately 7.9% from approximately HK\$11,362.4 million as at 31 December 2019.

1.2 Background information of TEDA Holding

TEDA Holding, the indirect controlling Shareholder, is a state-owned enterprise established in the PRC which principally engages in regional development, public utilities, finance and modern services.

1.3 Background information of Tianjin Pharmaceutical

Tianjin Pharmaceutical is a state-owned enterprise established in the PRC, which is directly held as to 33% by Tianjin Bohai, which is in turn indirectly wholly-owned by TEDA Holding. It principally engages in the manufacture and sale of a broad range of pharmaceutical products, research and development, and provision of related consultancy service.

2. Overview of the PRC economy, the natural gas and coal industry and the pharmaceutical industry in the PRC

2.1 Overview of the PRC economy

As published on the website of the National Bureau of Statistics of the PRC (<http://data.stats.gov.cn>), the yearly growth of gross domestic product (“GDP”) for the PRC in 2020 was approximately 2.3%, as compared to approximately 6.0% in 2019. Given the then development and impact of the COVID-19 outbreak, the growth in GDP of the PRC for 2020 was lower than the growth in 2019. Nonetheless, the PRC economy has continued to recover and recorded a period-on-period growth in GDP of approximately 9.8% during the nine months ended 30 September 2021 as compared the same period in 2020, based on preliminary data published by the National Bureau of Statistics of the PRC in October 2021.

Based on publication¹ by the PRC government in relation to the Fourteenth Five Year Plan* (十四五規劃), the PRC government will focus on enhancing the quality and efficacy of the overall economy with a view to attain sustainable and healthy development through, among others, (i) the improvement of supply chain modernisation* (提升產業鏈供應鏈現代化水平); (ii) the development of strategical new industries* (發展戰略性新興產業); (iii) the acceleration of modern service industries development* (加快發展現代服務業); (iv) the coordination of infrastructure construction advancement* (統籌推進基礎設施建設); and (v) the acceleration of the development of digitalisation* (加快數位化發展).

¹ *Publication of the State Council of the PRC titled “中共中央關於制定國民經濟和社會發展第十四個五年規劃和二零三五年遠景目標的建議” (source: www.gov.cn/zhengce/2020-11/03/content_5556991.htm)*

Although there might be short-term uncertainties attributable to, among others, the introduction of various government policies, the development of the COVID outbreak such as pockets of re-emergence of COVID variants and the corresponding measures and policies implemented/to be implemented by the central and local governments, which in turn may cause increased short-term market volatility and impact to the PRC economy. Nonetheless, in the long term, we understand from the Management that the Group should benefit from opportunities arising from (i) the economic development of the Tianjin City over time; and (ii) the continued coordinated development of the Beijing-Tianjin-Hebei* (京津冀協同發展). As such, the Management are of the view that the continuous development in Tianjin may have positive impacts to the Group's core businesses.

2.2 Overview of the natural gas and coal industry in the PRC

As disclosed in the Letter from the Board, the price of the Steam and Heat Power Products will be determined with reference to, among others, the prices of natural gas with reference to the guidance prices of the same for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC and the current transacted coal prices of local coal exchange or market in the PRC, which may fluctuate during the term of the 2021 Steam Purchase Master Agreement. In this connection, we have performed the following market research as background information.

For natural gas, pursuant to the China Natural Gas Development Report (2021)* (中國天然氣發展報告(2021))² published by National Energy Administration of the PRC, it is the intention under the PRC government policy to increase the reserve of natural gas. As such, the gas production volume has been increasing notably, and the newly proven geological reserves has been around the peak levels. In 2020, national natural gas production in the PRC amounted to approximately 192.5 billion cubic meters, representing an annual increase of approximately 9.8%. The growth rate of natural gas production has been higher than the growth rate of consumption for two consecutive years, it is expected that natural gas will be increasingly used as a heat and power supply in the PRC going forward.

The report also mentioned that natural gas is a cleaner and low-carbon fossil energy source and reference was made to the Fourteenth Five Year Plan* (十四五規劃) in relation to the development of the natural gas industry must be with the aim to reduce carbon emission, in the benefit of economic and social development and secure safe and consistent supply with a view to meet the increasing demand for clean energy. The objective is to increase the supply of natural gas over time as it is considered to be one of the replacements for traditional high-carbon fossil energy sources, and to integrate the natural gas industry and new energy industry under the modern energy systems in the PRC.

² Source: www.nea.gov.cn/2021-08/21/c_1310139334.htm

In terms of coal, pursuant to the National Bureau of Statistics, the total energy consumption of the PRC (in terms of 10,000 tons of standard coal) increased from approximately 441,492 units in 2016 to approximately 498,000 units in 2020, representing a compound annual growth rate of approximately 3.1%. However, the percentage of coal used in the total energy consumption decreased from approximately 62.2% in 2016 to approximately 56.8% in 2020.

In April 2021, the State Council of the PRC (the “**State Council**”) has published guidance opinion titled Guiding Opinions on Energy Work in 2021* (2021年能源工作指導意見)³, it is the target of the State Council to lower the percentage of coal used in the total energy consumption to below 56% in 2021. It is also the objective of the State Council to, among others, achieve carbon neutral in the long-term, develop high-quality renewable energy, reduce reliance on fossil fuel power generation, develop renewable energy and improve energy utilisation efficiency in the future.

2.3 Overview of the pharmaceutical industry in the PRC

The National Bureau of Statistics and China Pharmaceutical Industry Association have jointly published the 2020 Economic Operation Report of Chemical and Pharmaceutical Industry in the PRC* (2020年中國化學製藥行業經濟運行報告)⁴ in July 2021. Pursuant to the report, due to the ageing population, the continued economic development of the PRC and the increasing emphasis on health, the demand for pharmaceutical related products is gradually increasing.

In addition, we also noted that the PRC government has guided and promoted the drug innovation and research by a series of guiding opinions and policies, including Drugs and Medical Devices Review and Approval System Reform* (藥品醫療器械審評審批制度改革) and Generic Drug Quality and Efficacy Consistency Evaluation* (仿製藥品質和療效一致性評價). The PRC government has also supported the development of the pharmaceutical manufacturing industry through different ways, including but not limited to, accelerating the approval of listing of drugs with greater clinical value, promoting the development of the pharmaceutical industry through the Drug Marketing Authorization Holder System* (藥品上市許可持有人制度), enhancing fiscal, taxation and financial support to the pharmaceutical industry, improving drug application policies and promoting the development of commercial health insurance to improve the level of medical protection. As such, it is expected that the PRC government policies will promote the long-term development of the PRC pharmaceutical market.

3 *Announcement by the State Council of the PRC titled “2021年能源工作指導意見”*
(source: www.gov.cn/zhengce/zhengceku/2021-04/22/content_5601529.htm)

4 *Announcement by National Bureau of Statistics of the PRC in July 2021*
(source: lwzb.stats.gov.cn/pub/lwzb/bztt/202107/t20210723_5929.html)

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3. Reasons for and benefits of entering into the 2021 Master Agreements

Set out below are the reasons for and the benefits of entering into the 2021 Master Agreements based on the Letter from the Board.

(A) *The 2021 Steam Purchase Master Agreement*

The Group has been involved in the heat supply industry in TEDA since 2006 and has continued to supply heat and thermal power to industrial, commercial and residential customers in TEDA over the years. The entering into of the 2021 Steam Purchase Master Agreement with TEDA Holding will enable the Group to maintain an uninterrupted supply of heat and thermal power to its customers and is essential for the effective, efficient and continuous operation of the Group's utilities businesses in TEDA.

(B) *The 2021 Master Sales Agreement*

Members of the Group had in their ordinary course of business been selling the Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group in the past. The Directors are of the view that the continuation of the Sales Transactions will enable the Company to maintain its long-term cooperative relationship with the Tianjin Pharmaceutical Group while taking advantage of its wide customer base and extensive distribution network, thus providing a stable source of income for the Group.

(C) *The 2021 Entrusted Processing Master Agreement*

The Tianjin Pharmaceutical Group includes drug market authorised licence holders which are allowed to use qualified contract manufacturing organisation to manufacture pharmaceutical products. Members of the Group, being qualified contract manufacturing organisations, may take advantage of the business opportunities under the Drug MAH System in the pharmaceutical outsourcing industry in the PRC through the entering into of the 2021 Entrusted Processing Master Agreement and the transactions contemplated thereunder. In addition, entering into of the 2021 Entrusted Processing Master Agreement also allows the Group to fully utilise its production capacity and provide the Group with a steady source of income.

Having considered (i) the principal business activities of the Group including, among others, the utility segment and pharmaceutical segment, each of which contributed more than 30% of the revenue of the Group during the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2021; (ii) the fact that the Group has been involved in the heat supply in TEDA since 2006, and that the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement is a renewal of Existing Master Sales Agreement and Existing Entrusted Processing Master Agreement, respectively, which will facilitate the continuation of the business operations of the

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Group; and (iii) the reasons for entering into the 2021 Master Agreements as set out above, we concur with the Directors' view that the transactions to be contemplated under the 2021 Master Agreements are in the interests of the Company and the Shareholders as a whole.

4. The 2021 Master Agreements

Set out below are the principal terms of each of the 2021 Steam Purchase Master Agreement, the 2021 Master Sales Agreement and the 2021 Entrusted Processing Master Agreement:

(A) *Summary of the principal terms of the 2021 Steam Purchase Master Agreement*

Date 17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as purchaser); and
- (2) TEDA Holding (for itself and on behalf of its subsidiaries) (as supplier).

Subject matter

Members of the Group may from time to time purchase Steam and Heat Power Products from members of the TEDA Holding Group for use in their operation.

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

Pricing policy

The price of the Steam and Heat Power Products will be determined in accordance with the government guidance prices, the rate of return and the standard of quality of products, and in particular with reference to the followings:

- (1) guidance prices of the prices of natural gas for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC from time to time and the current transacted coal prices of local coal exchange or market in the PRC;

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- (2) the rate of return of capital (with reference to the rate of return of capital as stipulated in the Energy Products Subsidy Plan in TEDA* (天津開發區能源產品補貼方案) issued by the TEDA Finance Bureau from time to time); and
- (3) the standard of quality of the Steam and Heat Power Products as specified in the individual purchase contract(s).

The relevant member(s) of the Group will pay the relevant member(s) of the TEDA Holding Group in accordance with the detailed payment terms as set out in the individual purchase contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Steam Purchase Master Agreement. In general, the consideration for the Steam and Heat Power Products consumed which is payable by the relevant member(s) of the Group under the individual purchase contract(s) to the relevant member(s) of the TEDA Holding Group will be invoiced every month and paid via bank transfer within the 15th day of the next calendar month. In addition, the terms of each individual transaction (including but not limited to the quality and technical requirements of the Steam and Heat Power Products, production coordination and measurement, price and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms.

Conditions precedent

The 2021 Steam Purchase Master Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and
- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

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(B) Summary of the principal terms of the 2021 Master Sales Agreement

Date 17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as supplier); and
- (2) Tianjin Pharmaceutical (for itself and on behalf of its subsidiaries) (as purchaser).

Subject matter

Members of the Group may from time to time sell Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group according to their needs.

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

Pricing policy

The prices of the Chemical Drug and Pharmaceutical Products will be determined in accordance with the following principles:

- (a) the members of the Group will sell the Chemical Drug and Pharmaceutical Products to members of the Tianjin Pharmaceutical Group in accordance with the following pricing policies which are equally applicable to independent third-party customers:
 - (i) the price (the "**Annual Price**") of each of the Chemical Drug and Pharmaceutical Products will be determined on an annual basis with reference to the costs of production, past/projected profit margin (which may range from 5% to 90% depending on the product category), and the market conditions (e.g. the market demand for such category of products and the availability of similar or comparable products in the market) and the price of similar products offered by at least two independent third party suppliers in the same region;
 - (ii) such Annual Price may be adjusted from time to time according to the market conditions (e.g. fluctuations in the costs of raw materials and changes in market demand) and shall be reviewed regularly; and

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- (b) the members of the Group may, based on the transaction quantity and payment terms, offer to the members of the Tianjin Pharmaceutical Group the same discount which the Group would offer to its independent third party customers.

The table below sets out the average profit margin in respect of each category of the Chemical Drug and Pharmaceutical Products during the period for the nine months ended 30 September 2021:

Category of products	Average profit margin (approx. %)
Tablets	68%
Capsules	36%
Injection medicines	43%
Other forms of chemical drug products	32%
Pharmaceutical printing and packaging products	25%

The relevant member(s) of the Tianjin Pharmaceutical Group will pay the relevant member(s) of the Group in accordance with the detailed payment terms as set out in the individual sales contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Master Sales Agreement. In general, the consideration for the Chemical Drug and Pharmaceutical Products sold which is payable by the relevant member(s) of the Tianjin Pharmaceutical Group under the individual sale contract(s) to the relevant member(s) of the Group will be invoiced every month and paid via bank transfer within 60 days upon delivery of the products and the passing of the product inspection. In addition, the terms of each individual transaction (including but not limited to delivery, return of goods, consideration and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms and shall be on terms which are no more favourable than those which the Group would offer to other independent third party customers.

Conditions precedent

The 2021 Master Sales Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and

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- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

(C) ***Summary of the principal terms of the 2021 Entrusted Processing Master Agreement***

Date 17 November 2021

Parties

- (1) The Company (for itself and on behalf of its subsidiaries) (as trustee); and
- (2) Tianjin Pharmaceutical (for itself and on behalf of its subsidiaries) (as entrustor).

Subject matter

Members of the Tianjin Pharmaceutical Group may from time to time entrust members of the Group with the carrying out of manufacturing, processing, quality control, inspection, warehousing and other related work in respect of the Drugs.

Term

Subject to the satisfaction of the conditions precedent referred to below, for a term of three years commencing from 1 January 2022 to 31 December 2024, unless terminated by either party by giving one month's notice in writing.

Pricing basis

The manufacturing and processing fees will be determined in accordance with the following principles:

- (a) the members of the Group will, in accordance with the following pricing policies which are equally applicable to independent third-party customers, and with reference to other factors including market conditions and fees charged by at least two independent third parties for the manufacturing and processing of similar Drugs, charge the members of the Tianjin Pharmaceutical Group the following manufacturing and processing fees:
 - (i) ***for raw materials and packaging materials:*** the relevant costs of procurement;
 - (ii) ***for production inputs other than raw materials and packaging materials and for work done including entrusted manufacturing and processing:*** total costs plus a profit margin of approximately 20% to 45%; and

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- (b) the members of the Group may, based on the production quantity and payment terms, offer to the members of the Tianjin Pharmaceutical Group the same discount which the Group would offer to its independent third party customers.

The relevant member(s) of the Tianjin Pharmaceutical Group will pay the relevant member(s) of the Group in accordance with the detailed payment terms as set out in the individual contract(s), which will be entered into by the relevant parties pursuant to the principles and conditions set out in the 2021 Entrusted Processing Master Agreement. In general, the manufacturing and processing fees payable by the relevant member(s) of the Tianjin Pharmaceutical Group under the individual contract(s) to the relevant member(s) of the Group will be invoiced on the 20th day of each calendar month and paid via bank transfer within the same calendar month. In addition, the terms of each individual transaction (including but not limited to process, quality control, production safety, fees and payment terms) shall be fair and reasonable, in accordance with the applicable laws and regulations of the PRC and on normal commercial terms.

Conditions precedent

The 2021 Entrusted Processing Master Agreement will only be effective upon the fulfilment of the following conditions precedent by 31 December 2021:

- (1) all necessary approvals from competent authorities, as well as the board of directors, independent non-executive directors and general meetings of the parties to the agreement and/or all other relevant parties having been obtained (including the necessary approvals of the agreement and the transactions contemplated thereunder from the Stock Exchange and the Independent Shareholders); and
- (2) the compliance with all applicable laws and regulations (including the Listing Rules) and all requirements of competent authorities (including the Stock Exchange) in relation to the agreement and the transactions contemplated thereunder by the Company.

5. Internal control measures

As disclosed in the Letter from the Board, with a view to ensure that the transactions contemplated under the 2021 Master Agreements will be conducted in accordance with its terms and the pricing policies and within the respective proposed cap amounts, the Group has the following internal control measures in place to monitor the relevant transactions:

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(A) *in respect of the 2021 Steam Purchase Master Agreement*

The members of the Group will regularly keep track of the offered prices for the Steam and Heat Power Products and, where available, compare them with those offered by at least two independent third parties under the supervision of the finance department of the relevant Group members to ensure that the fees or prices for the aforementioned products are conducted on normal commercial terms and in accordance with the pricing policies in respect of the 2021 Steam Purchase Master Agreement.

(B) *in respect of the 2021 Master Sales Agreement*

The general managers of the relevant Group members will be responsible for determining the Annual Prices of the Chemical Drug and Pharmaceutical Products at the beginning of each year, the sales department shall monitor the relevant cost base throughout the term of the 2021 Master Sales Agreement and review such Annual Prices to make adjustments where necessary in response to market situations, including, among others, fluctuations in raw material costs and changes in market demands. The Group will regularly review the market price of the Chemical Drug and Pharmaceutical Products under the supervision of the finance department of the relevant Group members and compare the selling price of the Chemical Drug and Pharmaceutical Products with similar products on the market before the approval of separate sales contract(s) between members of the Group and members of the Tianjin Pharmaceutical Group in order to ensure that the actual selling price of the Chemical Drug and Pharmaceutical Products and discount to be offered will be no more favourable than those offered to independent third party customers and that the Sales Transactions are conducted in the interests of the Group.

The sales departments of the relevant member(s) of the Group will review and approve the prices of and terms under which the relevant Chemical Drug and Pharmaceutical Products offered to the relevant member(s) of the Tianjin Pharmaceutical Group in order to ensure that the transactions are conducted on normal commercial terms, in accordance with the proposed annual caps set by the Company, and the terms are no more favourable than those offered to independent third party customers.

The Group will also inform all its sales agents of the fixed prices of the Chemical Drug and Pharmaceutical Products, and the sales of Chemical Drug and Pharmaceutical Products must be processed at such fixed prices until further notice from the Group. The Group will also ensure that the same sales policy is applied to both independent third parties as well as the Tianjin Pharmaceutical Group. The sales department of the relevant Group members will also monitor the transaction amounts in order to prevent the aggregated sales amount of the Sales Transactions from exceeding the relevant annual caps.

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(C) in respect of the 2021 Entrusted Processing Master Agreement

The personnel and management of the relevant Group members will conduct regular checks to review and assess whether individual transactions are conducted in accordance with the terms of the 2021 Entrusted Processing Master Agreement, including but not limited to:

- (a) if a comparable market price is available, the Group will compare the proposed fees against market price to ensure that the proposed fees will not be lower than the fees for similar nature of service provided by independent third-party manufacturers;
- (b) if no comparable market price is available, the Group will conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on the value of the relevant service and the actual costs and expenses incurred; and
- (c) after arm's length negotiation with the relevant connected person, the relevant members of the Group will report to their management who will approve individual transactions as appropriate.

(D) in respect of all of the 2021 Master Agreements

- (a) The financial management department of the relevant members of the Group will be responsible for preparing the accounting records, reporting, and statistical analysis of the continuing connected transactions, and for submitting the same to the Group on a regular basis. The relevant financial management department will also collect and monitor the transaction amounts of the continuing connected transactions on a quarterly basis to ensure timely assessment on whether the annual caps are exceeded; and
- (b) the external auditors and independent non-executive Directors of the Company will review the transactions contemplated under the 2021 Master Agreements to check and confirm, among other things, whether the pricing policies have been adhered to and whether the proposed cap amounts have been exceeded.

6. Our work performed and analysis on the internal control and pricing policies

6.1 *Our work performed on the internal control procedures in respect of the 2021 Steam Purchase Master Agreement*

We have reviewed the relevant pricing policy as stated in the individual agreement under the Existing Steam Purchase Agreements and noted that the price of the Steam and Heat Power Products will be determined based on (i) the prices of natural gas with reference to the then applicable guidance prices of the same for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC and the prevailing transacted coal prices of local coal exchange or market in the PRC; and (ii) the rate of return of capital as stipulated in the Energy Products Subsidy Plan in TEDA* (天津開發區能源產品補貼方案) issued by the TEDA Finance Bureau.

As advised by the Management, the financial management department will monitor the factors affecting the price of the Steam and Heat Power Products as mentioned above from time to time and adjust the price of the Steam and Heat Power Products according to such changes, where necessary.

In this connection, we have obtained the internal annual approval document of the Group for the supply of Steam and Heat Power Products in 2021 prepared by the financial management department, setting out, among other information, the unit price per tonne of the Steam and Heat Power Products, the contractual counter-party, the business unit preparing the document. The aforesaid internal annual approval document was signed and approved by various relevant departments and senior personnel.

We understand from the Management that the supply price of Steam and Heat Power Products may be adjusted subject to the prevailing market conditions during a given year. Under such circumstances, the supply price of Steam and Heat Power Products will be notified by the supplier, being member of TEDA Holding Group, the relevant Tianjin government-owned body, and the relevant calculations of the supply price which is adjusted in accordance with the subject pricing policies, including, (i) the then applicable prices of natural gas with reference to the guidance prices of the same for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC and the prevailing transacted coal prices of local coal exchange or market in the PRC; and (ii) the rate of return of capital as stipulated in the Energy Products Subsidy Plan in TEDA* (天津開發區能源產品補貼方案) issued by the TEDA Finance Bureau, will be checked by the Management.

In this connection, we have obtained historical price adjustment approval records from the Company. Based on the price adjustment approval documents obtained, we noted that the finance department of Tianjin TEDA Tsinlien Heat & Power Co., Ltd., a non-wholly owned subsidiary of the Company, (“**Tsinlien Heat & Power**”) reported the basis of the price adjustments for the purchase of Steam and Heat

Power Products (the “**Proposed Steam and Heat Adjusted Price**”) to the senior management team, which was in accordance with the pricing policies under the subject steam purchase agreement. The Proposed Steam and Heat Adjusted Price was approved by the senior management team of Tsinlien Heat & Power, which comprised of chairman of the board of directors* (董事長), general manager* (總經理), deputy administrative manager* (常務副總經理) and deputy general manager* (副總經理). After the approval of the Proposed Steam and Heat Adjusted Price, Tsinlien Heat & Power entered into the supplemental agreement based on the Proposed Steam and Heat Adjusted Price.

Furthermore, the Management advised that the finance department of the relevant members of the Group shall be responsible for monitoring the utilisation of the annual caps under the 2021 Steam Purchase Master Agreement on a quarterly basis.

Based on our work and analysis performed as set out above, we considered that effective implementation of these internal control policies and the pricing policies would ensure the transactions under the 2021 Steam Purchase Master Agreement to be conducted on terms which are fair and reasonable.

6.2 *Our work performed on the internal control procedures in respect of the 2021 Master Sales Agreement*

We have discussed with the Management in relation to internal control policies in practice in relation to the Existing Master Sales Agreement conducted between 1 January 2019 and 30 September 2021 as part of our analysis on the internal control procedures. As advised by the Management, the annual prices of the Chemical Drug and Pharmaceutical Products (i.e. the Annual Price) was determined by the general manager(s) of the relevant Group member(s) with reference to, among others, prevailing market price, estimated costs of sales, including raw materials and labour costs and market conditions at the beginning of each year under the terms of Existing Master Sales Agreement during the period for the nine months ended 30 September 2021. Such Annual Price may be adjusted in response to the market conditions and/or market prices. In this connection, we obtained and reviewed a set of approval document prepared by the sales team of the commercial affairs department* (商業事務部) illustrating that approval from relevant managerial personnel is required for a change in the Annual Price. In addition, we have also obtained more than 10 samples of sale transaction of Chemical Drug and Pharmaceutical Products of different product categories by the Group, including both transactions with connected person and independent third party customers, and compared the unit price of the transactions with connected parties against those with Independent Third Parties. Based on the documents reviewed, we noted that the unit price of the Chemical Drug and Pharmaceutical Products to connected parties was not more favourable than those transacted with the independent third party customers.

In addition, we noted that the finance and internal audit departments of the relevant members of the Group have been responsible for monitoring the utilisation of the annual caps under Existing Master Sales Agreement on a quarterly basis. Such internal control procedures will continue to be performed under the 2021 Master Sales Agreement.

Based on our work and analysis performed as set out above, we considered that effective implementation of these internal control policies would ensure the transactions under the 2021 Master Sales Agreement to be conducted on terms which are fair and reasonable.

6.3 *Our work performed on the internal control procedures in respect of the 2021 Entrusted Processing Master Agreement*

For the transactions contemplated under the Existing Entrusted Processing Master Agreement conducted between 1 January 2019 and 30 September 2021, as part of our analysis on the internal control measures, we reviewed documents of Lisheng (defined hereafter), being the member of the Group that carried out the relevant manufacturing activities under the Existing Entrusted Processing Master Agreement. The documents set out details in relation to the approval of the subject transactions by the relevant board members of Lisheng (defined hereafter), which also sets out the overview of the subject transactions, pricing principles and basis. In addition, we noted that the finance and internal audit departments of the relevant members of the Group have been responsible for monitoring the utilisation of the annual caps under the Existing Entrusted Processing Master Agreement on a quarterly basis. Such internal control procedures will continue to be performed under the 2021 Entrusted Processing Master Agreement. Based on the above, we noted that there are relevant internal control procedures governing the approval of the transactions under the Existing Entrusted Processing Master Agreement with a view to ensure the relevant transactions are conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

With a view to further assess the fairness and reasonableness of the pricing policy, in particular, the Group shall charge members of the Tianjin Pharmaceutical Group a profit margin of approximately 20% to 45% on relevant costs (the “**Entrusted Processing Margin**”), we have considered that (i) the Management advised that the pricing policies for connected parties under the 2021 Entrusted Processing Master Agreement are equally applicable to independent third-party customers, and prices shall be determined with reference to other factors including, where applicable, market conditions and fees charged by independent third parties for the manufacturing and processing of similar Drugs; (ii) the Management also advised that the Group shall utilise the spare capacity of its relevant production lines to carry out the entrusted processing activities with a view to generate additional revenue and profit for the Group, as well as to maintain an appropriate level of utilisation of these production lines; (iii) in addition, we understand from the Management that Tianjin Lisheng Pharmaceutical Co., Ltd.* (天津力生制药股份有

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限公司) (“Lisheng”), being a non-wholly owned subsidiary of the Group, which is listed on the Shenzhen Stock Exchange, has been the member of the Group that carried out the relevant manufacturing activities under the Existing Entrusted Processing Master Agreement. Based on our review of the annual report of Lisheng for the year ended 31 December 2020, the overall gross profit margin of its different product categories ranged from approximately 14.6% to 77.0% during the two years ended 31 December 2019 and 2020, of which the Entrusted Processing Margin of 20% to 45% is within the range of; and (iv) furthermore, under the 2021 Entrusted Processing Master Agreement, the Group has the right but not the obligation to carry out the entrusted processing transactions for member(s) of Tianjin Pharmaceutical, the Management advised that prior to entering into entrusted processing transactions, it shall consider, among others, whether the subject transaction is in line with the objective of the Group, namely, to optimise the utilisation of its relevant production line capacity while maximising its profitability to the extent feasible.

Based on our work and analysis performed as set out above, we considered that effective implementation of these internal control policies would ensure the transactions under the 2021 Entrusted Processing Master Agreement to be conducted on terms which are fair and reasonable.

7. The Proposed Annual Caps

(A) The 2021 Steam Purchase Master Agreement

As disclosed in the Letter from the Board, set out below are (i) the historical transaction amounts paid by the Group to the TEDA Holding Group in respect of the transactions contemplated under the Existing Steam Purchase Agreements for the two years ended 31 December 2020 and nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the nine months ended 30 September 2021
Historical amount (note)	RMB783,394,136 (approximately HK\$939,321,506)	RMB738,980,073 (approximately HK\$886,067,234)	RMB630,087,482 (approximately HK\$755,500,578)

Note: Given the subject continuing connected transactions are as a result of the completion of change of shareholding structure of intermediate controlling shareholder of the Company as detailed in the announcement of the Company dated 30 April 2021, the Management advised that prior to the aforesaid completion in shareholding structure, the relevant transactions did not constitute continuing connected transactions under Chapter 14A of the Listing Rules, hence there were no historical annual caps in this connection.

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	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps (the “ Steam Purchase Annual Caps ”)	RMB1,040,000,000 (approximately HK\$1,247,002,398) (the “ 2022 Steam Purchase Annual Cap ”)	RMB1,120,000,000 (approximately HK\$1,342,925,659) (the “ 2023 Steam Purchase Annual Cap ”)	RMB1,130,000,000 (approximately HK\$1,354,916,067) (the “ 2024 Steam Purchase Annual Cap ”)

The Steam Purchase Annual Caps were determined with reference to the expected demand of Steam and Heat Power Products of the Group from the TEDA Holding Group during the term, the latest government guidance prices for the natural gas and the current transacted coal prices of the local coal exchange or market in the PRC required to produce the Steam and Heat Power Products and the recent market price of such products in the nearby regions.

Before 28 April 2021, members of the TEDA Holding Group were not connected persons of the Company, and the previous purchase transactions did not constitute continuing connected transactions of the Company. As disclosed in the announcements of the Company dated 30 October 2020 and 30 April 2021, after completion of an internal integration, TEDA Holding became an intermediate controlling Shareholder and a connected person of the Company. Members of the TEDA Holding Group also became connected persons of the Company by virtue of their being associates of TEDA Holding. In compliance with Rule 14A.60 of the Listing Rules, the Company published the announcement dated 30 April 2021 disclosing the Existing Steam Purchase Agreements and the purchase transactions thereunder.

Our analysis on the Steam Purchase Annual Caps

We have obtained and reviewed the breakdown of each of the 2022 Steam Purchase Annual Cap, 2023 Steam Purchase Annual Cap and 2024 Steam Purchase Annual Cap from the Management (the “**Steam Purchase Annual Caps Breakdown**”). Based on the Steam Purchase Annual Caps Breakdown, the Management estimated (i) the average purchase price of steam produced by natural gas and coal over the term of the 2021 Steam Purchase Master Agreement with reference to the prevailing prices. In addition, in light of the recent notable fluctuation in prices of natural gas and coal, for prudence, the Management has also factored in the possible future increase in price of natural gas and coal; (ii) the estimated total volume of steam to be purchased by the Group is assumed to be stable over the term of the 2021 Steam Purchase Master Agreement; and (iii) given the stated objectives of the ongoing PRC government environmental policies in the reduction in carbon emission overtime, it is estimated that, going forward, the coal-generated steam to be purchased by the Group will decrease in proportion and the natural gas-generated steam to be purchased by the Group will increase correspondingly as a result.

LETTER FROM RED SUN CAPITAL

We have also considered the historical transaction amounts under the Existing Steam Purchase Agreements for the each of the years ended 31 December 2019 and 2020, and the nine months ended 30 September 2021, with an estimated fluctuation between approximately RMB739.0 million to approximately RMB840.1 million⁵. We noted that the top and bottom range represented a difference of approximately 13.7% (the “**Steam Purchase Historical Fluctuation**”). As advised by the Management, the fluctuation in transaction amount was influenced by one or more of the following factors, including (i) the purchase price of natural gas/coal generated steam over the subject year; (ii) the proportion of natural gas/coal generated steam purchased by the Group over the subject year; and/or (iii) the total volume of steam purchased in the subject year.

We noted that the annualised amount calculated based on the nine months ended 30 September 2021 of approximately RMB840.1 million represented approximately 80.8% of the 2022 Steam Purchase Annual Cap of RMB1,040 million, and that the 2023 Steam Purchase Annual Cap and the 2024 Steam Purchase Annual Cap represented a year-on-year growth of approximately 7.7% and less than 1%, respectively. Given the need to cater for the external factors set out in the preceding paragraph which led to the Steam Purchase Historical Fluctuation from year-to-year, we considered the basis of the Steam Purchase Annual Caps to be reasonable.

Nonetheless, we have conducted further market research on the price index of natural gas and coal in the PRC. Based on the PRC Liquefied Natural Gas Ex-factory Price Index* (中國LNG出廠價格全國指數) issued by Shanghai Petroleum and Gas Exchange* (上海石油天然氣交易中心), the price index of natural gas increased from approximately RMB5,370 per tonne on 4 January 2021 to approximately RMB7,451 per tonne on 17 November 2021, being the date of the Announcement, representing an increase of approximately 38.8%. For coal, based on information published on the website of China Coal Transport & Distribution Association* (中國煤炭市場網), the price index of the Bohai-Rim Steam-Coal Q5500K spot reference price* (環渤海動力煤現貨參考價) from 761 on 4 January 2021 to 946 on 17 November 2021, being the date of the Announcement, representing an increase of approximately 24.3%. Based on the above factors and analysis, we considered the basis for determining the Steam Purchase Annual Caps to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

⁵ This is the calculated annualised amount based on the transaction amount for the nine months ended 30 September 2021 of approximately RMB630,087,482, such is used for illustration purposes only and does not purport to be the actual transaction amount for the year ending 31 December 2021.

LETTER FROM RED SUN CAPITAL

(B) The 2021 Master Sales Agreement

As disclosed in the Letter from the Board, set out below are (i) the historical transaction amounts paid by the Tianjin Pharmaceutical Group to the Group in respect of the transactions contemplated under the Existing Master Sales Agreement for the two years ended 31 December 2020 and the nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the nine months ended 30 September 2021
Historical amount	RMB72,424,622 (approximately HK\$86,840,074)	RMB62,945,738 (approximately HK\$75,474,506)	RMB46,165,310 (approximately HK\$55,354,089)
	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps (the “ Master Sales Annual Caps ”)	RMB90,000,000 (approximately HK\$107,913,669) (the “ 2022 Master Sales Annual Caps ”)	RMB110,000,000 (approximately HK\$131,894,484) (the “ 2023 Master Sales Annual Caps ”)	RMB135,000,000 (approximately HK\$161,810,504) (the “ 2024 Master Sales Annual Caps ”)

The existing annual caps for each of the three years ended/ending 31 December 2019, 2020 and 2021 as set out in the Existing Master Sales Agreement are RMB90,000,000, RMB103,000,000 and RMB119,000,000, respectively.

The decreases in the historical transaction amounts for the year ended 31 December 2020 and for the nine months ended 30 September 2021 were mainly attributable to (i) the weaker demand stemmed from the outbreak of COVID-19 in 2020; and (ii) the decrease in demand from the relevant member(s) of the Tianjin Pharmaceutical Group during the period caused by one major tablet product not having obtained the consistency evaluation.

The abovementioned Master Sales Annual Caps were determined with reference to (i) the historical transaction amounts in respect of the Sales Transactions; (ii) the projected level of demand for the Chemical Drug and Pharmaceutical Products by members of the Tianjin Pharmaceutical Group, which has extensive distribution networks that cover most of the major retail pharmacy groups, clinics and hospitals in Tianjin; (iii) the PRC’s policy to promote the pharmaceutical industry; (iv) the anticipation of more products passing the consistency evaluation and becoming eligible to take part in the centralised drug procurement program during the three years ending 31 December 2024; and (v) an estimated buffer in response to fluctuation of market prices.

LETTER FROM RED SUN CAPITAL

Our analysis on the Master Sales Annual Caps

We have obtained and reviewed the breakdown of each of the 2022 Master Sales Annual Cap, 2023 Master Sales Annual Cap and 2024 Master Sales Annual Cap from the Management (the “**Master Sales Annual Caps Breakdown**”). Based on the Master Sales Annual Caps Breakdown, the Management estimated (i) the unit price of each of the four main categories of pharmaceutical products expected to be manufactured under the 2021 Master Sales Agreement, including medications in the form of tablets, capsules, injections and other forms; and (ii) the estimated quantity to be manufactured based on the projected level of demand for the Chemical Drug and Pharmaceutical Products by members of the Tianjin Pharmaceutical Group as communicated to the Management.

We have also considered the historical transaction amounts under the Existing Master Sales Agreement for the each of the years ended 31 December 2019 and 2020, and the nine months ended 30 September 2021, with an estimated fluctuation between approximately RMB61.6 million⁶ to approximately RMB72.4 million. We noted that the top range and bottom range represented a difference of approximately 17.5% (the “**Master Sales Historical Fluctuation**”), which we understand from the Management was primarily attributable to the prevailing market demand at the material time.

In addition, the Management advised that Lisheng, being a non-wholly owned subsidiary of the Group, has been and will primarily continue to be the party that shall carry out the transactions under the 2021 Master Sales Agreement. In this connection, as Lisheng is a listed company on the Shenzhen Stock Exchange, we have obtained and reviewed its published annual reports as part of our analysis. Based on our review of the annual reports of Lisheng for the year ended 31 December 2019 (the “**2019 Lisheng Annual Report**”) and the year ended 31 December 2020 (the “**2020 Lisheng Annual Report**”), we noted that between 2018 and 2020, Lisheng derived between approximately RMB1,140.8 million and approximately RMB1,615.3 million in revenue from the manufacturing of pharmaceutical products. On this basis, the 2022 Master Sales Annual Cap of RMB90.0 million, represents approximately 5.6% to 7.9% of the aforesaid Lisheng’s range of revenue derived from the manufacturing of pharmaceutical products.

Given the information as set out in the Master Sales Annual Caps Breakdown, which was prepared by the Management based on the projected level of demand for the Chemical Drug and Pharmaceutical Products by members of the Tianjin Pharmaceutical Group, and Lisheng’s existing pharmaceutical products manufacturing capacity to process the estimated quantity under the Master Sales Annual Caps, we consider the 2022 Master Sales Annual Cap to be reasonable.

⁶ *This is the calculated annualised amount based on the transaction amount for the nine months ended 30 September 2021 of approximately RMB46,165,310, such is used for illustration purposes only and does not purport to be the actual transaction amount for the year ending 31 December 2021.*

LETTER FROM RED SUN CAPITAL

As for each of the 2023 Master Sales Annual Cap and 2024 Master Sales Annual Cap, it represents a year-on-year growth of approximately 22.2% to 22.7%, respectively. With a view to assess the fairness and reasonableness, we have conducted research on the PRC pharmaceutical retail market and considered, among others, (i) the information contained in a report published by Deloitte in 2020 (the “**2020 Pharmaceutical Retail Market Report**”) (source: www2.deloitte.com/content/dam/Deloitte/cn/Documents/life-sciences-health-care/deloitte-cn-lshc-four-t-ransformation-pharmaceutical-retail-market-zh-200609.pdf), which sets out, among others, that the PRC pharmaceutical retail market⁷ (中國醫藥零售市場) is expected to experience continuous growth, the corresponding market size is estimated to be approximately RMB356 billion in 2021, which is expected to grow to approximately RMB381 billion in 2022 and further to approximately RMB408 billion in 2023 (the “**Estimated PRC Pharmaceutical Retail Market Size**”). On this basis, the 2020 Pharmaceutical Retail Market Report estimated that the overall Estimated PRC Pharmaceutical Retail Market Size will increase at a rate of approximately 7% per annum. However, the Management considers that given the Tianjin Pharmaceutical Group has already established extensive distribution networks that covers most of the major retail pharmacy groups, clinics and hospitals in Tianjin, and its relatively small market share compared to the Estimated PRC Pharmaceutical Retail Market Size, the demand from the Tianjin Pharmaceutical Group is likely to increase at a greater rate than the aforesaid overall PRC market growth; and (ii) the fact that the Master Sales Historical Fluctuation amounted to approximately 17.5%, which we understand from the Management was primarily attributable to the prevailing market demand at the material time, being factors beyond the Group’s control.

As such, when determining the basis of the Master Sales Annual Caps, which represents a year-on-year growth of approximately 22.2% to 22.7% to the 2023 Master Sales Annual Caps and 2024 Master Sales Annual Caps, the Management has, to the extent possible, factored in the aforesaid historical fluctuations as well as potential growth in demand with a view to avoid a situation whereby the insufficient Master Sales Annual Caps may lead to the possibility of a cessation of all relevant production activities in a short period of time and cause undue disruption to the manufacturing processes. Such possible temporary cessation of production activities may be unduly burdensome and/or lengthy as it may subject to further administrative procedures of two separate listed companies, namely the Company and Lisheng, which is a company listed on the Shenzhen Stock Exchange. Furthermore, we noted that the transactions contemplated under the 2021 Master Sales Agreement, which shall be conducted on terms in accordance with the Group’s relevant pricing policies, will further broaden the revenue base of the Group. Based on the above factors, we considered the basis for determining the Master Sales Annual Caps to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

⁷ *The market sizing of the PRC pharmaceutical retail market does not include distribution channels into hospitals and have not taken into consideration Chinese medicine or supplements.*

LETTER FROM RED SUN CAPITAL

(C) *The 2021 Entrusted Processing Master Agreement*

As disclosed in the Letter from the Board, set out below are (i) the historical transaction amount paid by the Tianjin Pharmaceutical Group to the Group in respect of the transactions contemplated under the Existing Entrusted Processing Master Agreement (including the fees for (a) raw materials and packaging materials and (b) other production and work done) for the nine months ended 30 September 2021, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the nine months ended 30 September 2021		
Historical amount	RMB5,574,200 (approximately HK\$6,683,693)		
	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Proposed annual caps (the “ Entrusted Processing Annual Caps ”)	RMB80,000,000 (approximately HK\$95,923,261) (the “ 2022 Entrusted Processing Annual Cap ”)	RMB90,000,000 (approximately HK\$107,913,669) (the “ 2023 Entrusted Processing Annual Cap ”)	RMB100,000,000 (approximately HK\$119,904,077) (the “ 2024 Entrusted Processing Annual Cap ”)

As set out in the Existing Entrusted Processing Master Agreement, the cap amount for the term thereunder from 19 January 2021 to 31 December 2021 is RMB55,000,000.

As set out in the Letter from the Board, the abovementioned Entrusted Processing Annual Caps were determined with reference to (i) the manufacturing plans of the Tianjin Pharmaceutical Group during the term of the 2021 Entrusted Processing Master Agreement; (ii) the expected Drug manufacturing and processing capacity of the Group; and (iii) it is expected that certain products under the entrusted processing arrangement will pass the consistency evaluation and become eligible to participate in the centralised drug procurement program in the future, resulting in a higher volume of contracts to be entered into and higher annual transaction amounts during the three years ending 31 December 2024.

LETTER FROM RED SUN CAPITAL

Our analysis on the Entrusted Processing Annual Caps

We have obtained and reviewed the breakdown of each of the 2022 Entrusted Processing Annual Cap, 2023 Entrusted Processing Annual Cap and 2024 Entrusted Processing Annual Cap from the Management (the “**Entrusted Processing Annual Caps Breakdown**”). Based on the Entrusted Processing Annual Caps Breakdown, the Management estimated (i) the unit price of each of the three main pharmaceutical products expected to be manufactured under the 2021 Entrusted Processing Master Agreement, all of the aforesaid three pharmaceutical products are medication in tablet form; and (ii) the estimated demand from the Tianjin Pharmaceutical Group as communicated to the Management.

We understand from the Management that Lisheng, being a non-wholly owned listed subsidiary of the Group, has been the member of the Group that carried out the relevant manufacturing activities under the Existing Entrusted Processing Master Agreement. Going forward, Lisheng shall continue to be the main member of the Group that carries out the relevant manufacturing activities under the 2021 Entrusted Processing Master Agreement. Based on our review of the 2019 Lisheng Annual Report and the 2020 Lisheng Annual Report, we noted that between 2018 and 2020, Lisheng derived between approximately RMB834.7 million to approximately RMB1,299.9 million from the manufacturing of medication in tablet form (片劑). On this basis, the 2022 Entrusted Processing Annual Cap of RMB80.0 million, represents approximately 6.2% to 9.6% of the aforesaid Lisheng’s range of revenue derived from the manufacturing of tablets.

Furthermore, we noted from the respective annual reports for the year ended 31 December 2019 and 2020 of Tianjin Tianyao Pharmaceuticals Co., Ltd.* (天津天藥藥業股份有限公司) (“**Tianjin Tianyao**”), being the primary customer of the Group under the 2021 Entrusted Processing Master Agreement, that the cost of sales of the hormone type (激素類) products, being the main product type under the 2021 Entrusted Processing Master Agreement as advised by the Management, recorded by Tianjin Tianyao amounted to approximately RMB658.9 million and RMB1,063.1 million (the “**2020 Hormone Products Cost of Sales**”) for the year ended 31 December 2019 and 2020, respectively. Such represented a year-on-year growth rate of approximately 61.3%. In this connection, the 2022 Entrusted Processing Annual Cap of RMB80.0 million only represented approximately 7.5% of the 2020 Hormone Products Cost of Sales from Tianjin Tianyao. In the event that Tianjin Tianyao continues to increase its sales of hormone type products in 2022, the relevant percentage will be lower than 7.5% as calculated above.

Given the information as set out in the Entrusted Processing Annual Caps Breakdown prepared by the Management based on the estimated demand from the Tianjin Pharmaceutical Group and the existing manufacturing capacity of Lisheng, as well as the Tianjin Tianyao’s historical cost of sales of the hormone type products, we consider the 2022 Entrusted Processing Annual Cap to be reasonable.

LETTER FROM RED SUN CAPITAL

As for each of the 2023 Entrusted Processing Annual Cap and 2024 Entrusted Processing Annual Cap, it represents a year-on-year growth of approximately 12.5% to 11.1%, respectively. With a view to assess the fair and reasonableness, we have considered, among others, (i) the information contained in the 2020 Pharmaceutical Retail Market Report, which sets out, among others, that (a) the PRC pharmaceutical retail market⁸ (中國醫藥零售市場) is expected to continue its expansion, the corresponding market size is estimated to be approximately RMB356 billion in 2021, which is expected to increase to approximately RMB381 billion in 2022 and further to approximately RMB408 billion in 2023, representing a rate of increase of approximately 7%; and (ii) in the recent past, the historical growth rate of Lisheng's overall revenue from the manufacturing of medication in tablet form between 2018 and 2019 was approximately 11.4%, and overall sales volume of its tablets also increased by approximately 15.7% between 2018 and 2019. On this basis, we consider the growth rate of the 2023 Entrusted Processing Annual Cap and 2024 Entrusted Processing Annual Cap of approximately 12.5% to 11.1% to be reasonable. Based on the above factors, we considered the basis for determining the Entrusted Processing Annual Caps to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the entering into of the 2021 Master Agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the 2021 Master Agreements, including the proposed annual caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2021 Master Agreements and the transactions contemplated thereunder, including the proposed annual caps.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has around 15 years of experience in the corporate finance industry.

* *For identification purpose only*

⁸ *The market sizing of the PRC pharmaceutical retail market does not include distribution channels into hospitals and have not taken into consideration Chinese medicine or supplements.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company	Position
Mr. Zhang Bingjun	Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) ("Tsinlien Investment Holdings")	Chairman
	Tsinlien	Chairman
Mr. Chen Yanhua	Tsinlien Investment Holdings	Director and General Manager
	Tianjin Bohai Tsinlien	Chairman Director and General Manager
Dr. Li Xiaoguang	Tsinlien Investment Holdings Tsinlien	Deputy General Manager Deputy General Manager and Company Secretary

Name of Director	Name of company	Position
Mr. Zhuang Qifei	Tsinlien Investment Holdings Tsinlien	Deputy General Manager Deputy General Manager
Mr. Cui Xiaofei	TEDA Holding Tsinlien Investment Holdings Tsinlien	Deputy General Manager Director and Deputy General Manager Deputy General Manager

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons or corporations, other than the Directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Notes	Capacity	Number of shares held	Approximate percentage of total issued shares
TEDA Holding	<i>1&2</i>	Interest of controlled corporation	673,759,143	62.81%
Tsinlien Investment Holdings	<i>1&2</i>	Interest of controlled corporation	673,759,143	62.81%
Tianjin Bohai	<i>1&2</i>	Interest of controlled corporation	673,759,143	62.81%
Tsinlien	<i>1&3</i>	Direct beneficial interest and interest of controlled corporation	673,759,143	62.81%

Notes:

- All interests stated above represent long positions.
- Tsinlien is a direct wholly-owned subsidiary of Tianjin Bohai which in turn is a direct wholly-owned subsidiary of Tsinlien Investment Holdings and an indirect wholly-owned subsidiary of TEDA Holding. By virtue of the SFO, TEDA Holding, Tsinlien Investment Holdings and Tianjin Bohai are deemed to be interested in the same parcel of shares of the Company in which Tsinlien is interested.

3. As at the Latest Practicable Date, Tsinlien directly held 22,960,000 shares of the Company and its wholly-owned subsidiaries, namely Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited held 568,017,143 shares, 2,022,000 shares and 80,760,000 shares of the Company respectively. By virtue of the SFO, Tsinlien is deemed to have an interest in the shares of the Company in which Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited are interested.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person or corporation, other than the Directors or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been, since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested, whether directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

6. DIRECTORS' SERVICE CONTRACTS

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

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Zhang Bingjun and Mr. Chen Yanhua are directors of Tsinlien Investment Holdings which, through certain of its subsidiaries, is partly engaged in the businesses of pharmaceutical including manufacture and sale of medicinal raw materials, food additive and medical disinfecting products. As these businesses are of different types and/or different sales regions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Tsinlien Investment Holdings.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those business to which the Directors and his or her associates were appointed to represent the interests of the Company and/or the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

9. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which is included in this circular:

Name	Qualification
Red Sun Capital	a corporation licensed by the SFC for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or references to its name in the form and context as set out in this circular.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member(s) of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member(s) of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which have been, since 31 December 2020, being the balance sheet date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member(s) of the Group, or were proposed to be acquired or disposed of by or leased to any member(s) of the Group.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tianjindex.com) during the period of 14 days from the date of this circular:

- (a) the 2021 Steam Purchase Master Agreement;
- (b) the 2021 Master Sales Agreement;
- (c) the 2021 Entrusted Processing Master Agreement;
- (d) the letter from the Independent Board Committee, the full text of which is set out on page 21 of this circular;
- (e) the letter from Red Sun Capital, the full text of which is set out on pages 22 to 52 of this circular; and
- (f) the written consent from Red Sun Capital referred to in the section headed “*Qualification and Consent of Expert*” of this appendix.



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 882)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Tianjin Development Holdings Limited (天津發展控股有限公司) (the “**Company**”) will be held at 24th Floor, Admiralty Centre, Tower I, 18 Harcourt Road, Hong Kong on 22 December 2021 (Wednesday) at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the 2021 Steam Purchase Master Agreement (as defined and described in the circular of the Company dated 3 December 2021 (the “**Circular**”), a copy of the 2021 Steam Purchase Master Agreement marked “**A**” together with a copy of the Circular marked “**B**” are produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved, confirmed and ratified; and
- (b) 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 authorised for and on behalf of the Company to sign, execute, perform and deliver all such other instruments, deeds, documents and agreements and do such acts or things and take all such steps as he or they may in his or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or give effect to the 2021 Steam Purchase Master Agreement and the transactions contemplated thereunder (including the proposed annual caps) and all matters incidental to, ancillary to or in connection with the matters contemplated therein.”

2. “**THAT:**

- (a) the 2021 Master Sales Agreement (as defined and described in the Circular, a copy of the 2021 Master Sales Agreement marked “**C**” is produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved, confirmed and ratified; and

NOTICE OF EGM

- (b) 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 authorised for and on behalf of the Company to sign, execute, perform and deliver all such other instruments, deeds, documents and agreements and do such acts or things and take all such steps as he or they may in his or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or give effect to the 2021 Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps) and all matters incidental to, ancillary to or in connection with the matters contemplated therein.”
3. **“THAT:**
- (a) the 2021 Entrusted Processing Master Agreement (as defined and described in the Circular, a copy of the 2021 Entrusted Processing Master Agreement marked “**D**” is produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder (including the proposed annual caps) be and are hereby approved, confirmed and ratified; and
- (b) 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 authorised for and on behalf of the Company to sign, execute, perform and deliver all such other instruments, deeds, documents and agreements and do such acts or things and take all such steps as he or they may in his or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or give effect to the 2021 Entrusted Processing Master Agreement and the transactions contemplated thereunder (including the proposed annual caps) and all matters incidental to, ancillary to or in connection with the matters contemplated therein.”

By Order of the Board
Tianjin Development Holdings Limited
Chen Yanhua
Executive Director and General Manager

Hong Kong, 3 December 2021

Notes:

- (1) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy may not be a member of the Company.
- (2) In order to be valid, the completed form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or other authority, must be deposited at the Company’s share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:00 p.m. on 20 December 2021 (Monday), or in case of any adjournment of the EGM, not less than 48 hours before the time appointed for the holding of any adjournment meeting. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting.

NOTICE OF EGM

- (3) Where there are joint registered holders of any shares, any one of such persons may vote at the meeting (or at any adjournment thereof), either personally or by proxy in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of such joint holders so present whose name stands first on the register of members of the Company shall alone be entitled to vote in respect of such shares.
- (4) The register of members of the Company will be closed from 17 December 2021 (Friday) to 22 December 2021 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to determine the entitlement to attend and vote at the meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 16 December 2021 (Thursday).
- (5) All the resolutions set out in this notice will be decided by poll.
- (6) **In order to facilitate the prevention and control of the spreading of Coronavirus Disease 2019 pandemic and to safeguard the health and safety of the shareholders of the Company, the Company encourages its shareholders to consider appointing the chairman of the meeting as his/her proxy to vote on the relevant resolutions at the meeting as an alternative to attending in person.**

As at the date of this notice, the Board of the Company consists of Mr. Zhang Bingjun, Mr. Chen Yanhua, Dr. Li Xiaoguang, Mr. Zhuang Qifei, Mr. Cui Xiaofei, Mr. Cheung Wing Yui, Edward, Dr. Cheng Hon Kwan**, Mr. Mak Kwai Wing, Alexander**, Ms. Ng Yi Kum, Estella**, Mr. Wong Shiu Hoi, Peter** and Dr. Loke Yu**.*

* *non-executive director*

** *independent non-executive director*

PRECAUTIONARY MEASURES FOR THE EGM

To ensure the health and safety of the attendees and to prevent the spreading of the COVID-19 pandemic, the Company will implement the following precautionary measures at the EGM:

- (i) compulsory wearing of surgical face masks by all attendees prior to admission to the meeting venue and throughout the EGM;
- (ii) compulsory temperature check will be conducted on every attendee, any person with a body temperature of over 37.2 degrees Celsius, or has flu-like symptoms or is otherwise unwell will not be admitted to the meeting venue;
- (iii) submission of health declaration form by all attendees at the entrance of the EGM venue;
- (iv) maintenance of a safe distance between seats and the Company may limit the number of attendees at the EGM as may be necessary to avoid overcrowding; and
- (v) no provision of refreshments or drinks and no distribution of corporate gifts and coupons.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the meeting venue or require any person to leave the meeting venue in order to ensure the safety of the attendees at the EGM.

Subject to the development of the COVID-19 situation, the Company may implement additional precautionary measures as and when appropriate.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the EGM in person, Shareholders are encouraged to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM by submitting form of proxy with voting instructions inserted.

If you are not a registered Shareholder (if your shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.