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

If you have sold or transferred all your shares in **Tianjin Development Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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天津发展控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 882)

CONNECTED TRANSACTION

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



South China Capital Limited

A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from South China Capital containing its advice to the Independent Board Committee and the Shareholders is set out on pages 14 to 21 of this circular.

20 March 2008

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Benefo”	天津百利特精電氣股份有限公司 (Tianjin Benefo Tejing Electric Co., Ltd.*), a company incorporated in the PRC, the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600468)
“Board”	the board of Directors
“Capital Injection”	the aggregate capital injection in the sum of RMB454,650,000 (equivalent to approximately HK\$494,185,000) made by Tai Kang and Benefo in cash
“Capital Injection Agreement”	the capital injection agreement dated 29 February 2008 relating to the Capital Injection entered into between Tai Kang and Benefo
“Company”	Tianjin Development Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Capital Injection in accordance with the terms of the Capital Injection Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Ze”	天津華澤(集團)有限公司 (Tianjin Hua Ze Group Limited*), a company incorporated in the PRC and a shareholder of Tian Fa Equipment as at the Latest Practicable Date
“Independent Financial Adviser” or “South China Capital”	South China Capital Limited, being a licensed corporation to carry out Type 6 regulated activity (advising on corporate finance) as set out in Schedule 5 to the SFO, the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Capital Injection Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive directors of the Company, namely, Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan
“Latest Practicable Date”	17 March 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machinery & Electric Group”	天津市機電工業控股集團公司 (Tianjin Machinery & Electric Industry Holding Group Company*), a company incorporated in the PRC, which is a connected person of the Company
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Taiwan, Hong Kong and the Macao Special Administrative Region of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Kang”	天津泰康實業有限公司 (Tianjin Tai Kang Industrial Co., Ltd.*), a sino-foreign joint venture incorporated in the PRC, which is 82.74% and 17.26% held by the Company and Machinery & Electric Group respectively
“Tian Fa Equipment”	天津市天發重型水電設備製造有限公司 (Tianjin Tian Fa Heavy Electric Equipment Manufacturing Limited*), an associate of the Company established in the PRC in which the Company indirectly holds 28.14% equity interest
“Tian Fa Equipment Disposal”	the conditional disposal of approximately 60% and approximately 6% interest in Tian Fa Equipment by Machinery & Electric Group and Hua Ze respectively to Benefo

DEFINITIONS

“Tsinlien”	Tsinlien Group Company Limited, a company incorporated in Hong Kong with limited liability which is controlled by the Tianjin Government and the controlling shareholder of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

* *For identification purpose only*

Unless otherwise stated, amount in RMB has been translated into HK\$ at exchange rate of HK\$1.00 to RMB0.92 for illustration purposes only. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.

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 under the Companies Ordinance)

(Stock Code: 882)

Executive Directors:

Mr. Yu Rumin (*Acting Chairman*)
Mr. Wu Xuemin
Mr. Nie Jiansheng
Mr. Dai Yan
Mr. Hu Chengli
Dr. Wang Jiandong
Mr. Bai Zhisheng
Mr. Zhang Wenli
Mr. Sun Zengyin
Dr. Zong Guoying
Mr. Zheng Daoquan

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

Independent Non-executive Directors:

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

20 March 2008

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

INTRODUCTION

On 29 February 2008, the Board announced that, Tai Kang, a non wholly-owned subsidiary of the Company, and Benefo entered into the Capital Injection Agreement.

The Directors were informed that Machinery & Electric Group and Hua Ze, which held approximately 60% and approximately 6% interest in Tian Fa Equipment respectively, agreed to dispose of their respective interest in Tian Fa Equipment to Benefo. Completion of the Tian Fa Equipment Disposal is conditional upon the fulfilment of a number of conditions including, among others, the obtaining of the approval of the shareholders of Benefo and the completion of the private placement of A shares in Benefo for the settlement of the consideration to be payable by Benefo to Machinery & Electric Group and Hua Ze under the Tian Fa Equipment Disposal.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Tian Fa Equipment was held by Tai Kang, Machinery & Electric Group and Hua Ze as to approximately 34%, approximately 60% and approximately 6% respectively. Upon completion of the Tian Fa Equipment Disposal, Tian Fa Equipment will be held by Tai Kang and Benefo as to approximately 34% and approximately 66% respectively.

The purpose of this circular is to provide the Shareholders with, among other things, (i) further details of the Capital Injection Agreement; (ii) the letter of recommendation from the Independent Board Committee; and (iii) the letter of advice from South China Capital to the Independent Board Committee and the Shareholders.

CAPITAL INJECTION AGREEMENT

Date

29 February 2008

Parties involved

- (1) Tai Kang, being a shareholder of Tian Fa Equipment, is a 82.74% owned subsidiary of the Company with the remaining 17.26% interest owned by Machinery & Electric Group, a connected person of the Company; and
- (2) Benefo, which will become a shareholder of Tian Fa Equipment upon completion of the Tian Fa Equipment Disposal, is a non wholly-owned subsidiary of Machinery & Electric Group, a connected person of the Company.

Capital Injection

Pursuant to the Capital Injection Agreement, each of Tai Kang and Benefo, agreed that the registered capital of Tian Fa Equipment be increased from RMB180,598,000 (equivalent to approximately HK\$196,302,000) to RMB635,248,000 (equivalent to approximately HK\$690,487,000) by injection of the followings:-

- (1) Tai Kang will pay the consideration of RMB154,650,000 (equivalent to approximately HK\$168,098,000) in cash; and
- (2) Benefo will pay the consideration of RMB300,000,000 (equivalent to approximately HK\$326,087,000) which will be raised by way of a private placement of its A shares.

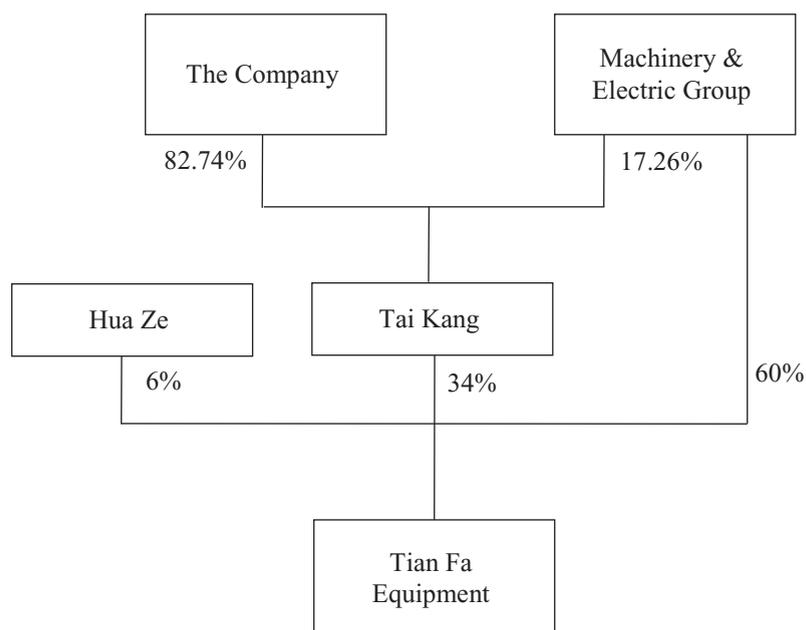
LETTER FROM THE BOARD

The following table shows the percentage interest in the registered capital of Tian Fa Equipment before and after Completion:–

Shareholders	Existing registered capital prior to Completion		Capital Injection	Registered capital after Completion	
	RMB'000	Approximate %	RMB'000	RMB'000	Approximate %
Tai Kang	61,398	34	154,650	216,048	34
Benefo	119,200	66	300,000	419,200	66
Total:	180,598	100	454,650	635,248	100

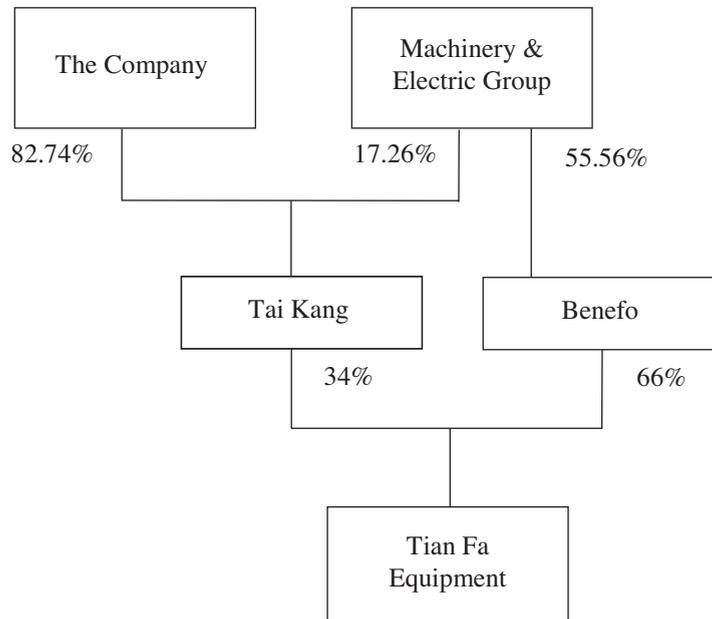
The following corporate charts illustrate the respective approximate shareholdings of Tian Fa Equipment as at the Latest Practicable Date, immediately after the completion of the Tian Fa Equipment Disposal but before Completion and immediately after Completion:–

As at the Latest Practicable Date:–

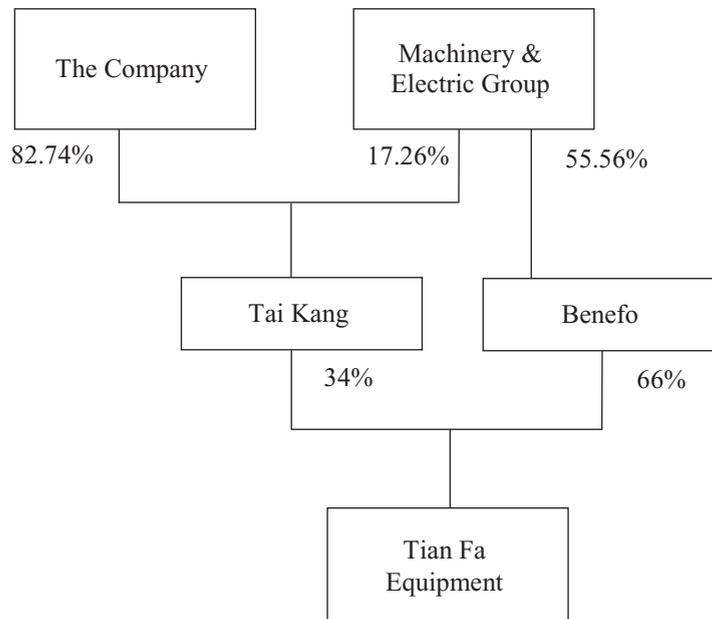


LETTER FROM THE BOARD

Immediately after the completion of the Tian Fa Equipment Disposal but before Completion:–



Immediately after Completion:–



There is no further capital injection obligation for Tai Kang under the Capital Injection Agreement.

LETTER FROM THE BOARD

Consideration for the Capital Injection

The Capital Injection is in proportion to the shareholdings of Tian Fa Equipment and the consideration for the Capital Injection has been arrived at after arm's length negotiations between the parties involved. The Directors (including the independent non-executive Directors) considered that the Capital Injection Agreement is on normal commercial terms and was entered into in the ordinary and usual course of business and the terms thereof were fair and reasonable and were in the best interests of the Company and its shareholders as a whole. The consideration will be settled in cash by Tai Kang upon Completion and shall be satisfied by the internal resources of Tai Kang.

Conditions to Completion

Completion of the Capital Injection Agreement is conditional upon the completion of the Tian Fa Equipment Disposal and the fulfilment of the following conditions:–

- (1) the obtaining of the approval of the board of directors of Benefo and shareholders of Benefo in respect of the Capital Injection Agreement and the transactions contemplated thereunder in accordance with the articles of association of Benefo and the applicable PRC laws and regulations;
- (2) the completion of all necessary internal procedures relating to the Capital Injection contemplated under the Capital Injection Agreement by Tai Kang;
- (3) the obtaining of the approval of the China Securities Regulatory Commission in relation to the Capital Injection Agreement and the private placement(s) of A shares in Benefo by Benefo;
- (4) the completion of the private placement(s) of A shares in Benefo by Benefo contemplated under the Capital Injection Agreement and the successful raising of the requisite amount of funds for the Capital Injection contemplated under the Capital Injection Agreement by Benefo; and
- (5) (if applicable) the obtaining of the approval of the shareholders of the Company, being the holding company of Tai Kang, in respect of the Capital Injection Agreement and the transactions contemplated thereunder at a general meeting.

As at the Latest Practicable Date, conditions (2) and (5) above have been satisfied.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL INJECTION AGREEMENT

In view of the governmental policy on encouraging the use of reproducible energy and thus accelerating the introduction of electricity generated by water, wind, solar, etc. and the increasing demand for electricity brought by the robust economic development in the PRC, it is expected that the growth of the demand for equipment used to generate electricity by water in the PRC will continue to be strong. The Directors believe that the transactions contemplated under the Capital Injection Agreement will effectively capture such potential market by injecting more funds for enhancing the production capacity and efficiency of Tian Fa Equipment in the future. In addition, with the existing technological know-how and experience, the additional capital would enable Tian Fa Equipment to diversify its product lines and to enter into new markets.

INFORMATION ON THE RELEVANT PARTIES

Information on the Company

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries and associated companies are (i) infrastructure operations including toll road operations and port operations; (ii) utility operations including supply of water, electricity and heat and thermal power; and (iii) strategic and other investments including investments in the production, sale and distribution of winery products, gas fuel operations, elevator and escalator operations and income-producing hotels and hospitality-related properties.

Information on Tai Kang

Tai Kang is an investment holding company principally engaged in the business of manufacture, sale, installation, maintenance, transformation, technological development and after sale service of machinery and equipments through its subsidiaries. As at the Latest Practicable Date, the Company and Machinery & Electric Group hold approximately 82.74% and 17.26% equity interests in Tai Kang respectively.

Information on Benefo

Benefo was incorporated in the PRC on 23 September 1999 and has been listed on the Shanghai Stock Exchange since 15 June 2001. Benefo is principally engaged in the development and manufacture of low pressure electrical appliances components, electric transmission and power distribution facilities sets.

Information on Tian Fa Equipment

Tian Fa Equipment was incorporated in Tianjin, the PRC on 2 February 2001 and has commenced its operation since April 2001. It is principally engaged in the design, manufacture, sale and provision of advisory services for equipment used to generate electricity by water in the PRC.

LETTER FROM THE BOARD

Based on the financial statements of Tian Fa Equipment, which were prepared in accordance with accounting principles generally accepted in the PRC, the unaudited net asset value and the unaudited profit before and after taxation for the years ended 31 December 2006 and 2007 are set out in the following table:–

	For the year ended	
	31 December	
	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Net asset value	102,181	246,487
Profit before taxation	12,051	15,794
Profit after taxation	8,061	14,235

LISTING RULES IMPLICATION

Machinery & Electric Group holds 17.26% interest in Tai Kang, a non wholly-owned subsidiary of the Company. Therefore, Machinery & Electric Group is a connected person of the Company. As Benefo is an indirect non wholly-owned subsidiary of Machinery & Electric Group, Benefo is a connected person of the Company. Accordingly, the Capital Injection Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and, together with the capital injection in Tian Fa Equipment as announced by the Company on 3 December 2007, is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules as one applicable percentage ratio exceeds 2.5% on an aggregated basis.

An application has been made to the Stock Exchange for a waiver under Rule 14A.43 of the Listing Rules from the requirement to hold a shareholders' meeting to consider and approve the Capital Injection Agreement and the transactions contemplated thereunder, and the Stock Exchange has granted a waiver from strict compliance with Rule 14A.43 of the Listing Rules on the basis that (i) no shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting to approve the Capital Injection Agreement and the transactions contemplated thereunder because no shareholder has an interest which is different from that of other shareholders in relation to the Capital Injection Agreement; and (ii) written approval has been obtained from two wholly-owned subsidiaries of Tsinlien, Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited, which as at 29 February 2008 held 536,167,143 Shares and 2,022,000 Shares respectively, representing an aggregate of approximately 51.97% of the total issued share capital of the Company, giving Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited the right to attend and vote at the general meeting of the Company to approve the Capital Injection Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular; and (ii) the letter of advice from South China Capital, the text of which is set out on pages 14 to 21 of this circular.

The Independent Board Committee, having taken into account the advice of South China Capital, considers that the Capital Injection Agreement is on normal commercial terms and was entered into in the ordinary and usual course of business and the terms thereof were fair and reasonable and were in the best interests of the Company and its shareholders as a whole. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Capital Injection Agreement and the transactions contemplated thereunder, the Independent Board Committee would recommend the Shareholders to vote in favour of the ordinary resolution(s) in this regard.

FURTHER INFORMATION

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

Yours faithfully,
By Order of the Board
Tianjin Development Holdings Limited
Yu Rumin
Acting Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



天津發展控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 882)

20 March 2008

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Shareholders in connection with the entering into of the Capital Injection Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the circular dated 20 March 2008 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as given to them in the Circular unless the context otherwise requires.

Your attention is also drawn to the “Letter from South China Capital” containing its advice to us regarding the Capital Injection Agreement as set out on pages 14 to 21 of this Circular.

We acknowledge that the Company has made an application to the Stock Exchange for a waiver under Rule 14A.43 of the Listing Rules from the requirement to hold a shareholders’ meeting to consider and approve the Capital Injection Agreement and the transactions contemplated thereunder, and the Stock Exchange has granted a waiver from strict compliance with Rule 14A.43 of the Listing Rules on the basis that (i) no shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting to approve the Capital Injection Agreement and the transactions contemplated thereunder because no shareholder has an interest which is different from that of other shareholders in relation to the Capital Injection Agreement; and (ii) written approval has been obtained from two wholly-owned subsidiaries of Tsinlien, Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited, which as at 29 February 2008 held 536,167,143 Shares and 2,022,000 Shares respectively, representing an aggregate of approximately 51.97% of the total issued share capital of the Company, giving Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited the right to attend and vote at the general meeting of the Company to approve the Capital Injection Agreement and the transactions contemplated thereunder.

Having considered the advice given by South China Capital, and the principal factors and reasons taken into consideration by them in arriving at its advice, we are of the opinion that the Capital Injection Agreement is on normal commercial terms and was entered into in the ordinary and usual course of business and the terms thereof were fair and reasonable and were in the best interests of the Company and its shareholders as a whole. If a general

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Capital Injection Agreement and the transactions contemplated thereunder, we would recommend the Shareholders to vote in favour of the ordinary resolution(s) in this regard.

Yours faithfully,

Independent Board Committee

Kwong Che Keung, Gordon

Independent non-executive

Director

Lau Wai Kit

Independent non-executive

Director

Cheng Hon Kwan

Independent non-executive

Director

LETTER FROM SOUTH CHINA CAPITAL

Set out below is the text of a letter received from South China Capital, the Independent Financial Adviser to the Independent Board Committee and the Shareholders regarding the Capital Injection for the purpose of inclusion in this circular.



South China Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

20 March 2008

To: The independent board committee and the shareholders
of Tianjin Development Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in connection with the connected transaction constituted by the Capital Injection, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular dated 20 March 2008 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 29 February 2008, Tai Kang, a 82.74% owned subsidiary of the Company, entered into the Capital Injection Agreement with Benefo, pursuant to which Tai Kang and Benefo have agreed to inject RMB154,650,000 (equivalent to approximately HK\$168,098,000) and RMB300,000,000 (equivalent to approximately HK\$326,087,000) respectively into Tian Fa Equipment. The amounts contributed by Tai Kang and Benefo are in proportion to their respective shareholdings in Tian Fa Equipment. Upon completion of the Capital Injection Agreement, the registered capital of Tian Fa Equipment will be increased from RMB180,598,000 (equivalent to approximately HK\$196,302,000) to RMB635,248,000 (equivalent to approximately HK\$690,487,000).

Given that Machinery & Electric Group holds approximately 17.26% of the equity interest in Tai Kang, Machinery & Electric Group is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Benefo is an indirect non-wholly owned subsidiary of Machinery & Electric Group and thus Benefo is also a connected person of the Company. The Capital Injection Agreement and the transactions contemplated thereunder therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and, together with the capital injection in Tian Fa Equipment as previously announced by the Company on 3 December 2007, are subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules as one applicable percentage ratio exceeds 2.5% on an aggregated basis. No Shareholder is required

LETTER FROM SOUTH CHINA CAPITAL

to abstain from voting at the general meeting in relation to the Capital Injection Agreement and the transactions contemplated thereunder. In addition, both of Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited, which were interested in an aggregate of approximately 51.97% of the Company's total issued share capital as at the date of the Capital Injection Agreement, have given consents in writing to approve the Capital Injection Agreement and the transactions contemplated thereunder. Having the above being the case, the Company, pursuant to Rule 14A.43 of the Listing Rules, has applied to the Stock Exchange for a waiver from strict compliance to accept written approvals from Tianjin Investment Holdings Limited and Tsinlien Venture Capital Company Limited in lieu of holding a general meeting of the Company and such waiver has been granted to the Company by the Stock Exchange.

An independent board committee comprising Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Capital Injection Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned; and (ii) whether the Capital Injection is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. We, South China Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the despatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of

LETTER FROM SOUTH CHINA CAPITAL

the Company, Machinery & Electric Group, and their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Capital Injection. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Capital Injection, we have taken into consideration the following principal factors and reasons:

1. The Capital Injection Agreement

On 29 February 2008, Tai Kang, a 82.74% owned subsidiary of the Company, entered into the Capital Injection Agreement with Benefo, pursuant to which Tai Kang and Benefo have agreed to inject RMB154,650,000 (equivalent to approximately HK\$168,098,000) and RMB300,000,000 (equivalent to approximately HK\$326,087,000) respectively into Tian Fa Equipment. The amounts contributed by Tai Kang and Benefo are in proportion to their respective shareholdings in Tian Fa Equipment. Upon completion of the Capital Injection Agreement, the registered capital of Tian Fa Equipment will be increased from RMB180,598,000 (equivalent to approximately HK\$196,302,000) to RMB635,248,000 (equivalent to approximately HK\$690,487,000).

Completion of the Capital Injection Agreement is conditional upon completion of the Tian Fa Equipment Disposal (as being detailed in the section below) and the fulfillment of the conditions precedent (as detailed under the paragraph headed "Conditions to Completion" of the Board Letter) or waiver thereof (as the case may be) pursuant to the Capital Injection Agreement.

As confirmed by the Directors, the Capital Injection Agreement was negotiated and entered into on arm's length basis between the parties involved and the Directors are of the view that the terms and conditions of the Capital Injection Agreement are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

2. Background of the Capital Injection

Introduction

As referred to in the announcement of the Company dated 3 December 2007, the Company, through Tai Kang, proposed to inject RMB41,400,000 into Tian Fa Equipment according to a capital injection agreement dated 2 December 2007 (the "Previous Injection Agreement"). Pursuant to the Previous Injection Agreement, Tianjin Xin Hao Investment Development Limited (a wholly-owned subsidiary of Machinery & Electric Group) and Hua Ze, being the other two shareholders of Tian Fa Equipment, also agreed to inject RMB82,440,400 and RMB6,230,000 respectively into Tian Fa Equipment. We were advised by the Directors that the Previous Injection Agreement

LETTER FROM SOUTH CHINA CAPITAL

had been completed and the total registered capital of Tian Fa Equipment was increased from RMB86,343,700 to RMB180,597,600, being the portion of the aforementioned total capital injection from the shareholders of Tian Fa Equipment which was allocated as registered capital of Tian Fa Equipment. As at the Latest Practicable Date, Tian Fa Equipment was owned as to approximately 34%, 60% and 6% by Tai Kang, Machinery & Electric Group and Hua Ze respectively.

Shortly after the completion of the Previous Injection Agreement, Machinery & Electric Group and Hua Ze have agreed to dispose of their respective equity interests in Tian Fa Equipment, being an aggregate of approximately 66% of the total issued share capital of Tian Fa Equipment, to Benefo (the “Tian Fa Equipment Disposal”). Therefore, Tian Fa Equipment will be owned as to approximately 34% and 66% by Tai Kang and Benefo respectively upon completion of the Tian Fa Equipment Disposal. As extracted from the Board Letter, completion of the Tian Fa Equipment Disposal is conditional upon the fulfillment of a number of conditions including, amongst others, the obtaining of the approval of the shareholders of Benefo and the private placement of A shares in Benefo for the settlement of the consideration to be payable by Benefo to Machinery & Electric Group and Hua Ze under the Tian Fa Equipment Disposal becoming effective.

Information on the Group

The Company is an investment holding company and the principal activities of the Group are (i) infrastructure operations including toll road operations and port operations; (ii) utility operations including the supply of water, electricity and heat and thermal power; and (iii) strategic and other investments including investments in the production, sale and distribution of winery products, gas fuel operations, elevator and escalator operations and income-producing hotels and hospitality-related properties.

Information on Tai Kang

Tai Kang is an investment holding company principally engaged in the business of manufacture, sale, installation, maintenance, transformation, technological development and after sale service of machinery and equipments through its subsidiaries. As at the Latest Practicable Date, the Company and Machinery & Electric Group held approximately 82.74% and 17.26% equity interests in Tai Kang respectively.

Information on Benefo

Benefo was incorporated in the PRC on 23 September 1999 and has been listed on the Shanghai Stock Exchange since 15 June 2001. Benefo is principally engaged in the development and manufacture of low pressure electrical appliances components, electric transmission and power distribution facilities sets.

LETTER FROM SOUTH CHINA CAPITAL

Business and financial information on Tian Fa Equipment

Tian Fa Equipment was incorporated in Tianjin, the PRC on 2 February 2001 and has commenced its operation since April 2001. It is principally engaged in the design, manufacture, sale and provision of advisory services for equipment used to generate electricity by water in the PRC.

Set out below are the unaudited financial information on Tian Fa Equipment for the two years ended 31 December 2006 and 2007 prepared in accordance with the accounting principles generally accepted in the PRC:

	For the year ended 31 December 2006 RMB'000	For the year ended 31 December 2007 RMB'000
Net asset value	102,181	246,487
Profit before taxation	12,051	15,794
Profit after taxation	8,061	14,235

We noted from the above table that the profit before and after taxation of Tian Fa Equipment had mounted substantially from approximately RMB12.05 million and RMB8.06 million for the year ended 31 December 2006 to approximately RMB15.79 million and RMB14.24 million for the year ended 31 December 2007. The net asset value of Tian Fa Equipment had also risen from approximately RMB102.18 million as at 31 December 2006 to approximately RMB246.49 million as at 31 December 2007, representing a considerable jump of approximately 141.23%. The Directors confirmed that such jump was mainly due to the additional capital injected under the Previous Injection Agreement.

3. Reasons of the Capital Injection

According to the Board Letter, the Directors are of the view that due to (i) the governmental policy on encouraging the use of reproducible energy in the PRC; and (ii) the increasing demand for electricity brought by the robust economic development in the PRC, the growth of the demand for equipment used to generate electricity by water in the PRC will continue to be strong. Accordingly, the Directors believe that the transactions contemplated under the Capital Injection Agreement will effectively allow Tian Fa Equipment to capture the said potential market growth by way of injecting additional funds into Tian Fa Equipment for enhancing the production capacity and efficiency of Tian Fa Equipment in the future.

In order for us to form a better understanding on the future business development of Tian Fa Equipment, we have enquired into the Directors for the use of the additional funding by Tian Fa Equipment under the Capital Injection, in particular the reasons for the Capital Injection shortly after the completion of the Previous Injection Agreement. The Directors explained to us that the purpose of the Previous Injection Agreement was

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to finance Tian Fa Equipment's proposed acquisition of factory and land which would save part of its recurrent operating costs. Regarding the Capital Injection, as confirmed by the Directors, Tian Fa Equipment would utilise the additional funding obtained thereby mainly for improving its existing production efficiency by i) expanding and building new factories; ii) enhancing the production's technology level; and iii) purchasing new machinery and equipments. Having considered the aforementioned reasons of the Capital Injection and the intended use of the additional funding by Tian Fa Equipment under the Capital Injection, we consider that the Capital Injection is in the ordinary and usual course of business of the Company.

Overview of the reproducible energy market in the PRC

The table below illustrates the power consumption in the PRC for the period from 2003 to 2007:

	2003	2004	2005	2006	2007	Compound annual growth rate (2003 to 2007)
Power consumption (100 gigawatt hour ("GWh"))	18,891.21	21,763.00	24,940.40	28,248.00	32,458.00	14.49%
Increase from pervious year (%)	15.29	15.20	14.60	13.26	14.90	n/a

Source: Information published on the China Electricity Council website (www.cec.org.cn)

Based on the statistics released by the China Electricity Council, the consumption of power were approximately 1,889,121 GWh and 3,245,800 GWh in 2003 and 2007 respectively, representing a compound annual growth rate of approximately 14.49%. The annual growth rate of power consumption had also increased by approximately 14.90% from 2006 to 2007. Furthermore, we have researched over the internet and we noted from the news released by the PRC government regarding the 11th five-year plan of the PRC that the PRC government has identified environmental protection and improving efficiency in energy utilisation as primary concerns for the development of the power industry in the PRC. For this reason, the PRC government highly encourages the further development of reproducible energy in the PRC. Given the rapid expansion of the power consumption in the PRC and the encouragement of the further development of reproducible energy by the PRC government as just mentioned, it is expected that the growth of the demand for equipment used to generate electricity by water in the PRC would likely to be promising. For this reason, Tian Fa Equipment would probably be able to enjoy an optimistic future business prospects. We are therefore of the view that the Capital Injection, which will allow Tian Fa Equipment to obtain additional funding to finance its business development in the potentially expanding reproducible energy market in the PRC, is in the interests of the Company and the Shareholders as a whole.

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4. Basis of the consideration

Pursuant to the Capital Injection Agreement, the registered capital of Tian Fa Equipment will be increased from RMB180,598,000 (equivalent to approximately HK\$196,302,000) to RMB635,248,000 (equivalent to approximately HK\$690,487,000) by cash injection of the followings:

- i) Tai Kang shall pay the consideration of RMB154,650,000 (equivalent to approximately HK\$168,098,000) in cash which will be financed by internal resources of the Group; and
- ii) Benefo shall pay the consideration of RMB300,000,000 (equivalent to approximately HK\$326,087,000) which will be raised by way of private placement of its A shares.

As referred to in the Board Letter, the consideration for the Capital Injection was determined after arm's length negotiation between the parties involved and the Directors advised us that it was arrived after taking into account, amongst others, the future expansion plan of Tian Fa Equipment.

In view of that the payment of the total consideration for the Capital Injection is proportionate to the respective shareholdings of Tai Kang and Benefo in Tian Fa Equipment, we concur with the Directors that the consideration for the Capital Injection is fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and Shareholders as a whole.

5. Possible financial effects of the Capital Injection

With reference to the Board Letter and upon our further enquiry, the Directors confirmed that they consider that the Capital Injection would not have a material impact on the assets and liabilities position of the Group. Although the cash position of the Group would be inevitably worsen by RMB154,650,000 (equivalent to approximately HK\$168,098,000), being the portion of the consideration for the Capital Injection which shall be borne by Tai Kang, the Directors are confident that Tian Fa Equipment would be able to provide continuous positive return to the Group in the future.

It should be noted that the aforementioned analysis are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon completion of the Capital Injection Agreement.

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RECOMMENDATION

Having taken into consideration the above factors and reasons, we are of the opinion that (i) the terms of the Capital Injection Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned; and (ii) the Capital Injection is in the ordinary and usual course of business of the Company and is in the interests of the Company and Shareholders as a whole. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Capital Injection Agreement and the transactions contemplated thereunder, we would advise the Independent Board Committee to recommend the Shareholders, as well as the Shareholders, to vote in favour of the ordinary resolution(s) in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register referred to therein (the “Register”); or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in underlying Shares of equity derivatives of the Company

The Company adopted a share option scheme at the annual general meeting held on 25 May 2007 under which the Directors may, at their discretion, invite any employees or Directors of the Group to take up options to subscribe for Shares subject to the terms and conditions stipulated in the share option scheme. The details of share options granted to the Directors which are outstanding as at the Latest Practicable Date are as follows:

Name of Directors	No. of Shares over which options are exercisable	Exercise price	Grant date	Exercisable from	Exercisable until
Yu Rumin	1,000,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Nie Jiansheng	900,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Dai Yan	900,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Hu Chengli	900,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Wang Jiandong	600,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Bai Zhisheng	300,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017

Name of Directors	No. of Shares over which options are exercisable	Exercise price	Grant date	Exercisable from	Exercisable until
Zhang Wenli	300,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Sun Zengyin	300,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Zong Guoying	300,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Zheng Daoquan	900,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Cheung Wing Yui	500,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Kwong Che Keung, Gordon	500,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Lau Wai Kit	500,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017
Cheng Hon Kwan	500,000	HK\$8.04	19 December 2007	17 January 2008	24 May 2017

As at the Latest Practicable Date, none of the Directors had exercised any share options in the Company.

(ii) Long position in shares of associated corporations of the Company

(a) Tianjin Port Development Holdings Limited

Name of Director	Capacity	Nature of interest	No. of shares held	Approximate percentage of shares in issue as at the Latest Practicable Date
Wu Xuemin	Interest of spouse	Family interest	10,000	0.0006

(b) Dynasty Fine Wines Group Limited

Name of Director	Capacity	Nature of interest	No. of shares held	Approximate percentage of shares in issue as at the Latest Practicable Date
Wang Jiandong	Beneficial owner	Personal interest	36,000	0.003

(iii) Share options in associated corporations of the Company*(a) Tianjin Port Development Holdings Limited*

Name of Directors	No. of shares over which options are exercisable	Exercise price	Grant date	Exercisable from	Exercisable until
Yu Rumin	1,900,000	HK\$2.74	3 February 2007	3 August 2007	3 February 2017
	400,000	HK\$4.24	25 January 2008	25 July 2008	24 January 2018
Nie Jiansheng	2,100,000	HK\$2.28	1 August 2006	1 February 2007	1 August 2016

(b) Dynasty Fine Wines Group Limited

Name of Director	No. of shares over which options are exercisable	Exercise price	Grant date	Exercisable from	Exercisable until
Bai Zhisheng	1,100,000	HK\$3.00	27 January 2005	17 August 2005	26 January 2015
	1,200,000	HK\$3.00	1 November 2006	22 May 2007	31 October 2016

As at the Latest Practicable Date, none of the Directors had exercised any share options in the above associated corporations of the Company.

Save as disclosed, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company were interested, or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock

Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the Register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or deemed to have, interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had an option in respect of such capital were as follows:–

(a) Interests in the Company

Name of Shareholders	Capacity	No. of Shares/ underlying Shares held	Approximate percentage of total issued Shares
Tsinlien (<i>Note 2</i>)	Interest of controlled corporations	538,189,143 (L)	51.97
T. Rowe Price Associates, Inc. and its Affiliates	Investment manager	51,996,000 (L)	5.02
JP Morgan Chase & Co.	Custodian corporation/ approved lending agent	60,602,000 (L)	5.85
		60,602,000 (P)	5.85
Citigroup Inc.	Interest of controlled corporations/Custodian corporation/approved lending agent	51,741,904 (L)	5.00
		40,610,000 (S)	3.92
		11,129,800 (P)	1.07

Notes:

- The letter “L” stands for the shareholder’s long position in Shares. The letter “S” stands for the shareholder’s short position in Shares. The letter “P” stands for lending pool.
- As at the Latest Practicable Date, Tianjin Investment Holdings Limited (“Tianjin Investment”) and Tsinlien Venture Capital Company Limited (“Tsinlien Venture”), both being wholly-owned subsidiaries of Tsinlien, held 536,167,143 Shares and 2,022,000 Shares respectively. By virtue of the SFO, Tsinlien is taken to have interest in all the Shares held by Tianjin Investment and Tsinlien Venture.

As at the Latest Practicable Date, Mr. Wu Xuemin, Mr. Nie Jiansheng, Mr. Dai Yan, Mr. Hu Chengli and Mr. Zheng Daoquan are directors of Tsinlien.

(b) Interests in other members of the Group

Name of subsidiaries of the Company	Name of the other shareholders	Approximate percentage of shareholder
Tianjin Jin Zheng Transportation Development Co., Ltd.	Tianjin Eastern Outer Ring Road Co., Ltd.	16.07
天津港保稅區長吳國際貿易有限公司 (Tianjin Port Tax Concession Zone Chang Hao International Trade Co., Ltd.)*	天津開發區陸海貿易貨運有限公司	10.00
天津港凱集裝箱服務有限公司 Tianjin Gangkai Container Service Co., Ltd.	Sun Victory Enterprises Limited 新凱企業有限公司	25.00
Tianjin Tai Kang Industrial Co., Ltd.	Tianjin Machinery & Electric Industry Holding Group Company	17.26
Tianjin Gangjin Real Estate Development Co., Ltd.	Tianjin Eastern Outer Ring Road Co., Ltd.	16.07
天津港鑫集裝箱物流有限公司 (Tianjin Gangxin Container Logistics Co., Ltd.)*	Gold Prime Holdings Limited 金得集團有限公司	25.00
天津港獅集裝箱服務有限公司 (Tianjin Gangshi Container Services Co., Ltd.)*	(1) Singapore Pacific Shipping Company Limited (新加坡太平船務有限公司)	25.00
	(2) Sinotrans Container Shipping Company Limited (中外運集裝箱運輸有限公司)	20.00
天津港海豐保稅物流有限公司 (Tianjin Port Haifeng Bonded Logistics Co., Ltd.)*	Mapletree Tianjin Free Port Development (HKSAR) Limited	49.00

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

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into, any service contract with any member 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).

5. COMPETING INTERESTS

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete with the business of the Group.

6. CONSENT

South China Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or reference to its name in the form and context in which it appears. The letter from South China Capital is given as at the date of this circular for incorporation herein.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Company since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. QUALIFICATION OF EXPERT

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

Name	Qualification
South China Capital	a licensed corporation to carry out Type 6 regulated activity (advising on corporate finance) as set out in Schedule 5 to the SFO

As at the Latest Practicable Date, South China Capital did not have any holding, directly or indirectly, of any securities in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities of any member of the Group.

As at the Latest Practicable Date, South China Capital did not have any direct or indirect interests in any assets which since 31 December 2006 (being the date of which the latest published audited consolidated financial statements of the Group were made up) had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. INTEREST IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which since 31 December 2006 (being the date of which the latest published audited consolidated financial statements of the Group were made up) had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

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

10. GENERAL

Unless specified otherwise, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Capital Injection Agreement will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Messrs. Woo, Kwan, Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours, up to and including 3 April 2008.