THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

天津發展控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 882)

MAJOR TRANSACTION

MERGER OF TSINLIEN ELECTRIC AND TEDA POWER

Capitalised terms used on this cover page have the same meanings as defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 4 to 22 of this circular.

The Agreement and the Merger have been approved by written approval obtained from Tsinlien, the controlling Shareholder, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information only.

31 January 2019

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

"Agreement"	the absorption and merger agreement dated 6 December 2018 entered into between Tsinlien Electric, TEDA Power, TEDA Investment and Dekken in connection with the Merger
"Benchmark Date"	31 October 2018
"Board"	the board of Directors
"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)
"Completion"	the completion of the Merger
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Dekken"	Dekken Investments Limited (君諾投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Valuer"	Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司)
"Latest Practicable Date"	25 January 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merger"	the merger by absorption under which TEDA Power will absorb and merge with Tsinlien Electric in accordance with the Agreement
"percentage ratios"	has the meaning ascribed to it under the Listing Rules

"PRC"	the People's Republic of China (for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share Option Scheme"	the share option scheme of the Company adopted at the annual general meeting of the Company held on 25 May 2007 and had expired on 24 May 2017
"Shareholder(s)"	holder(s) of the share(s) in the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TEDA Investment"	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
"TEDA Power"	Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司), a company established under the laws of the PRC with limited liability and a direct wholly-owned subsidiary of TEDA Investment as at the Latest Practicable Date
"TEDA Power Valuation Report"	the asset valuation report of TEDA Power prepared by the Independent Valuer, using the asset-based approach as of the Benchmark Date
"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 well as an indirect wholly-owned subsidiary of Tsinlien Investment, as at the Latest Practicable Date
"Tsinlien Electric"	Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司), a company established under the laws of the PRC with limited liability and is owned as to approximately 94.36% and 5.64% by Dekken and TEDA Investment respectively, which in turn an indirect non-wholly owned subsidiary of the Company as at the Latest Practicable Date

"Tsinlien Electric Valuation Report"	the asset valuation report of Tsinlien Electric prepared by the Independent Valuer, using the asset-based approach as of the Benchmark Date
"Tsinlien Investment"	Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司), a state-owned enterprise established in the PRC and wholly-owned by the Tianjin Municipal People's Government
"Valuation Reports"	Tsinlien Electric Valuation Report and TEDA Power Valuation Report
"%"	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.

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. Wang Zhiyong *(General Manager)*
Dr. Cui Di
Dr. Yang Chuan

Non-executive Directors:
Mr. Cheung Wing Yui, Edward
Dr. Chan Ching Har, Eliza

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

Registered office:
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Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

31 January 2019

To the Shareholders

Dear Sirs,

MAJOR TRANSACTION

MERGER OF TSINLIEN ELECTRIC AND TEDA POWER

INTRODUCTION

Reference is made to the announcement of the Company dated 6 December 2018 in relation to, among other things, the Agreement and the Merger.

The purpose of this circular is to provide you with among other things, further details of the Agreement and the Merger; together with other information as required under the Listing Rules.

THE AGREEMENT

Principal terms of the Agreement are as follows:

Date

6 December 2018

Parties

(1) TEDA Power

(2) Tsinlien Electric

(3) TEDA Investment

(4) Dekken

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, TEDA Power, TEDA Investment and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

The Merger

TEDA Power will be the surviving company upon Completion and will take up and assume all the assets, liabilities and business operations of Tsinlien Electric. Tsinlien Electric will then be deregistered and cease to exist as a legal entity. Dekken will in return hold approximately 47.09% equity interest of TEDA Power with the remaining approximately 52.91% equity interest of TEDA Power being held by TEDA Investment.

Prior to Completion, the registered share capital of TEDA Power and Tsinlien Electric are RMB785,822,235.76 and RMB314,342,450 respectively. Upon Completion, the registered and paid-up capital of TEDA Power will be the sum of the registered capital of TEDA Power and Tsinlien Electric prior to Completion, i.e. RMB1,100,164,685.76, which will be held as to approximately 47.09% by Dekken and approximately 52.91% by TEDA Investment.

The proportion of the registered capital of TEDA Power to be held by TEDA Investment and Dekken upon Completion is determined with reference to their respective equity interest in TEDA Power and Tsinlien Electric before Completion (i.e. approximately 94.36% held by Dekken and approximately 5.64% held by TEDA Investment) and the appraised net asset value of TEDA Power and Tsinlien Electric as valued by the Independent Valuer with 31 October 2018 as the Benchmark Date. According to the TEDA Power Valuation Report, the appraised net asset value of TEDA Power as at the Benchmark Date was approximately RMB1,161,103,600. According to the Tsinlien Electric Valuation Report, the appraised net asset value of Tsinlien Electric as at the Benchmark Date was approximately RMB1,156,843,200.

Upon Completion, the amount and proportion of the respective capital contribution of TEDA Investment and Dekken are set out in the table below:

Name of shareholders	Amount of capital contribution *RMB*	Proportion of capital contribution
Dekken	518,087,744.73	47.09%
TEDA Investment	582,076,941.03	52.91%
Total	1,100,164,685.76	100.00%

Save for the above capital contributions, there will be no additional capital commitment by Dekken and TEDA Investment pursuant to the Agreement.

Conditions Precedent to the Merger

Completion is subject to satisfaction of all of the following conditions:

(i) the Company having complied with all necessary requirements under the Listing Rules in respect of the Merger; and

(ii) TEDA Power having obtained the approval for the Merger by the state-owned assets supervision and administration department or its authorised unit of the PRC government.

As at the Latest Practicable Date, none of the conditions precedent above has been satisfied.

Each party to the Agreement agreed to use its best endeavours to ensure the fulfilment of the conditions precedent, failing which Dekken and TEDA Investment will further negotiate in relation to the Merger.

Completion

Completion shall take place within 45 days after fulfillment of all the conditions precedent.

Composition of the board of TEDA Power

After the Merger, the board of directors of TEDA Power shall consist of five directors, among which, three shall be nominated by TEDA Investment and two shall be nominated by Dekken. The supervisor of TEDA Power shall be nominated by TEDA Investment. The chairman of the board, the general manager and the deputy general manager of TEDA Power shall be appointed by TEDA Investment.

Business scope of TEDA Power

The scope of business of TEDA Power will remain unchanged after Completion, being the construction of electricity supply network, sales of electricity, application of technology related to new energy and renewable energy, electricity construction and related technical services.

Profits distribution

After the Merger, 50% of the annual net profits (after tax) of TEDA Power as recorded in its audited financial statements (after deduction of any statutory or discretionary surplus reserve or other reserves, business development fund and staff compensation fund) will be distributed to TEDA Investment and Dekken based on the proportion of their respective equity interest in TEDA Power.

According to the Company Law of the PRC, 10% of the annual net profits (after tax) of TEDA Power as recorded in its audited financial statements in the relevant financial year will be retained for its statutory surplus reserve, provided that no further amount out of the annual net profits for the relevant financial year is required to be retained if the accumulated amount of the statutory surplus reserve is more than 50% of TEDA Power's registered capital at the relevant time. According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Sino-foreign Equity Joint Venture Law Implementation Regulations (中外合資經營企業法實施條例) of the PRC, there are no prescribed rates as to the amount required to be retained for discretionary surplus reserve, business development fund and staff compensation fund, for which the amount to be withdrawn will be determined by the board of directors of TEDA Power. The board of directors of TEDA Power will have the discretion to determine the final profits distribution amount.

INFORMATION ON TSINLIEN ELECTRIC

Tsinlien Electric is a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of the Company. It is principally engaged in the supply of electricity, electrical installation and maintenance and related consultancy services.

As at the Latest Practicable Date, the shareholding structure of Tsinlien Electric is as follows:

Name of shareholders	Approximate percentage of equity interest
Dekken	94.36%
TEDA Investment	5.64%
Total	100.00%

Set out below is the unaudited financial information of Tsinlien Electric (prepared in accordance with the generally accepted accounting principles in Hong Kong) for the two financial years ended 31 December 2016 and 2017:

	For the year ended 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Net profit before tax	34,882	104,790
Net profit after tax	22,609	67,064

The net asset value of Tsinlien Electric as at 31 December 2017 was approximately RMB972,389,000.

According to the Tsinlien Electric Valuation Report prepared based on the asset-based approach, the appraised net asset value of Tsinlien Electric was approximately RMB1,156,843,200 as at the Benchmark Date.

INFORMATION ON TEDA POWER

TEDA Power is a company established under the laws of the PRC with limited liability and a direct wholly-owned subsidiary of TEDA Investment. The scope of business of TEDA Power includes construction of electricity supply network, sales of electricity, application of technology related to new energy and renewable energy, electricity construction and related technical services. The revenue generating activities of TEDA Power for the two financial years ended 31 December 2016 and 2017 are leasing of its power distribution networks and various power system facilities to Tsinlien Electric, and construction and installation of power system and ancillary facilities.

TEDA Power has two wholly-owned subsidiaries in the PRC, namely Tianjin TEDA Electric Power Engineering Co., Ltd. (天津泰達電力工程有限公司) ("**TEDA Engineering**") and Tianjin TEDA Electronic Engineering Co., Ltd. (天津泰達電子工程有限公司) ("**TEDA Electronic**"). TEDA Engineering is principally engaged in installation of electric power engineering, maintenance of electric transmission and distribution facility. TEDA Electronic is principally engaged in sales of electronic instrument, installation of electric energy metering device and commission maintenance of power transmission substation.

Set out below is the audited consolidated financial information of TEDA Power (prepared in accordance with the generally accepted accounting principles in the PRC) for the two financial years ended 31 December 2016 and 2017:

	For the year ended 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Net profit before tax	20,253	149,869
Net profit after tax	15,610	108,355

The audited consolidated net asset value of TEDA Power as at 31 December 2017 was approximately RMB328,712,000. According to the TEDA Power Valuation Report prepared based on the asset-based approach, the net asset value of TEDA Power was approximately RMB886,434,200 as at the Benchmark Date. The increase in the net asset value of TEDA Power is mainly due to TEDA Investment's further contribution to TEDA Power by way of cash in the amount of RMB615,342,235.76 and an injection of land use right at its book value of RMB480,000, totaling RMB615,822,235.76 in October 2018. The purpose of the capital injection is mainly to (i) fulfil the capital requirement for registration of electricity sales company under the Administrative Measures for Entry and Exit of Tianjin Electricity Sales Companies (Provisional) (天津市售電公司准入與退出管理實施細則(試行)) (the "**Measures**") and (ii) develop smart energy and renewable energy after Completion.

According to the TEDA Power Valuation Report, the appraised net asset value of TEDA Power was approximately RMB1,161,103,600 as at the Benchmark Date.

After Completion, both TEDA Engineering and TEDA Electronic will continue to be consolidated in the financial statements of TEDA Power according to the generally accepted accounting principles in the PRC.

VALUATION OF TSINLIEN ELECTRIC AND TEDA POWER

The Independent Valuer has considered three generally accepted valuation approaches, namely the income approach, market approach and asset-based approach in arriving at the appraised net asset value of Tsinlien Electric and TEDA Power.

The income approach refers to the valuation method that determines the value of the valuation subject by capitalising or discounting the expected income. The market approach refers to the valuation method that determines the value of the valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. The asset-based approach refers to the valuation method that determines the value of the valuation subject by appraising the value of various identifiable assets and liabilities on and off the balance sheets, based on the balance sheet of the valuation subject as of the valuation benchmark date.

Tsinlien Electric and TEDA Power are engaged in different operations in the simultaneous process of electricity distribution. The electricity distribution and sale business require the use of transformation and distribution system. The electricity purchased from State Grid (國家電網) or other power plants is transmitted at high voltage to various power transformer stations via the transmission lines. The power transformer stations which are equipped with large capacity transformers step down the voltage before distribution to power switching stations via distribution lines. The voltage of electricity is further stepped down at power switching stations before the electricity is supplied via the low voltage cable system to end-user customers. As TEDA Power is principally engaged in the operation of power distribution networks business rather than focusing on the supply of electricity, while Tsinlien Electric is principally engaged in the supply of electricity, both of which are connected in certain ways.

The revenue of Tsinlien Electric is mainly derived from supplying electricity to industrial, commercial and residential customers in Tianjin Economic and Technological Development Area. The end-user tariff were approved and fixed by National Development and Reform Commission of the PRC and the competent local pricing bureaus. The revenue of TEDA Power is mainly derived from operation of power system facilities and power distribution networks (i.e. leasing of its power distribution networks and various power system facilities to Tsinlien Electric) and construction of power transmission facilities, installation of power transformer facilities and ancillary facilities. Given that the purpose of the valuation is to determine equity interest in respect of the Merger, it is inappropriate to adopt the income approach in conducting the valuation.

Based on the valuation purpose, valuation subject, value type, information collection and other relevant conditions, as well as the conditions for application of the three basic valuation approaches, the market approach and asset-based approach are selected as the valuation methods for the valuation of Tsinlien Electric and TEDA Power.

The market approach requires selecting comparable listed companies and seeks to compare and analyse their financial data with those of the valued entity and make adjustments when necessary.

The valuation is intended to provide a reference basis for the value of the Merger. Given that the enterprises to be valued are small-scale regional power supply companies and there are very few listed power supply companies in the capital market, the application of the market approach has certain limitations because the selection of listed companies operating in the same industry with similar operation and business model as the valued enterprises are limited under the market approach. Further, there are relatively more factors affecting the capital market, and the price-to-book indicator of each comparable listed company, which is an important factor affecting the valuation, may vary significantly.

The asset-based approach, which objectively reflects the enterprise value, including its assets, liabilities and equities on the valuation benchmark date from the perspective of acquisition and establishment of assets, combining with the valuation of various identifiable assets of both enterprises involved in the Merger, can comprehensively and reasonably reflect the entire equity value of both enterprises.

As at the Benchmark Date and 31 December 2017, the major assets of Tsinlien Electric consist of cash and bank deposits, account receivables and other receivables, machinery and equipment, buildings and land use rights. As to TEDA Power, its major assets consist of cash and bank deposits, account receivables and other receivables, available-for-sale financial assets, long-term equity investment, machinery and equipment, buildings and land use rights. The major appreciation of the appraised net asset value of both Tsinlien Electric and TEDA Power as at the Benchmark Date as compared to their net asset value as at the Benchmark Date was primarily due to the appraised appreciation of the following assets:

(a) Buildings and structures

The appreciation of buildings is mainly due to (i) most of the buildings and structures to be valued were constructed ten or more than ten years ago. The labor cost and the prices of material and machine in the construction market have shown an increasing trend all along and in particular the inflation in the market price of commercial and residential buildings has led to a significant appreciation; (ii) there exists a large gap between the carrying amount and the net appraised value, resulting from the rising costs and the difference in the depreciation term adopted by the enterprises and the depreciation term adopted in the appraisal.

(b) Machinery and equipment

The appreciation of machinery and equipment assets is mainly due to (i) the increase in the original cost which was mainly due to the combined effect of the rising purchase price of equipment and the difference caused by value-added tax offset; (ii) the appreciation rate of the carrying amount being higher than that of the original cost which was mainly due to the difference of the economic lifetime adopted in the appraisal from the estimated useful lives of equipment adopted by the enterprises.

(c) Land use rights

According to the Tsinlien Electric Valuation Report, the appreciation of land use rights is mainly attributable to the appreciation of lands since the prices of lands have risen in recent years after the enterprise's earlier acquisition of the land and certain parts of the land are allocated lands without book value.

According to the TEDA Power Valuation Report, a majority of the land parcels to be valued are allocated lands without book value, and there is a considerable extent of inflation in the cost of land resumption in recent years, thus resulting in an appreciation of land valuation.

(d) Long-term equity investments

The long-term equity investments covered under the scope of valuation refer to the investments in two wholly-owned subsidiaries held by TEDA Power, namely TEDA Engineering and TEDA Electronic.

The investments in subsidiaries are appraised based on their audited financial statements as at the Benchmark Date, multiplied by the shareholding percentage in the subsidiaries held by TEDA Power as at the Benchmark Date. The reason for the appreciation of the valuation was mainly attributable to the good operation conditions of TEDA Engineering and TEDA Electronic under the long-term equity investments.

Among the assets with appraised appreciation, certain land use rights and buildings and structures of TEDA Power and its subsidiaries will be accounted for in their financial statements at book value (i.e. such amounts will be carried at their cost less subsequent accumulated depreciation or amortisation and impairment loss (as the case may be)) upon Completion in accordance with the Accounting Standard for Business Enterprises No. 20 — Business Combinations under Generally Accepted Accounting Practice in the PRC.

TEDA Power and its subsidiaries currently adopt the cost model to account for their buildings and structures, equipment and land use rights, which are carried at its costs less subsequent accumulated depreciation or amortisation and impairment loss (as the case may be). It is expected that cost model will continue to be adopted as their accounting policies to such buildings and structures, equipment and land use rights by applying their current accounting estimation and judgement on depreciation or amortisation method (as the case may be) and estimation of the useful life of respective assets after Completion. As the valuation approaches adopted by the Independent Valuer for the purpose of the valuation are to reflect the market value of all shareholders' interests of TEDA Power and Tsinlien Electric as at the Benchmark Date, and to provide a reference value for the valuation purpose, it may be different from the recognition policy of TEDA Power and its subsidiaries.

The movement on valuation between the carrying value of Tsinlien Electric and TEDA Power and their appraised value among various classes of assets as at the Benchmark Date are shown in the Tsinlien Electric Valuation Report as set out in Appendix II and the TEDA Power Valuation Report as set out in Appendix III to this circular, respectively.

Pursuant to the Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order of the State-owned Assets Supervision and Administration Commission of the State Council (No. 12)) (企業國有資產評估管理暫行辦法(國務院國有資產監督管理委員會令(第12號)), the valuation report prepared by an independent qualified valuer will be effective within one year from the valuation benchmark date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Directors are of the view that, as of the Latest Practicable Date, there is no material change in the market condition or the situations of the respective major assets of Tsinlien Electric and TEDA Power or material change in the assumptions used in the Valuation Reports since the Benchmark Date which may affect the valuation as set out in the Valuation Reports.

The Directors have reviewed the methodology of, and the bases and assumptions adopted for, the valuation of Tsinlien Electric and TEDA Power as stated in the Tsinlien Electric Valuation Report and TEDA Power Valuation Report, respectively. It is understood by the Board from the Independent Valuer that given the business model of both Tsinlien Electric and TEDA Power, there were limitations for the market approach and the income approach for valuing their underlying assets.

The Directors understand that in arriving at the valuation of Tsinlien Electric and TEDA Power, various assessments have been carried out by the Independent Valuer to ensure that the valuations are fair and reasonable, for instance:

(i) Buildings and structures

The Independent Valuer conducted inspections of the buildings and structures that are within the scope of valuation during the period was from 22 October 2018 to 8 November 2018. The contents of inspections included assets verifications, usage condition and assets rights which included (a) instructing the finance personnel and asset management personnel to register and report the buildings and structures based on assets inspection as required by the Independent Valuer and meanwhile collecting the certificates on the property ownership of the assets appraised and the documents and data reflecting the performance, status and economic and technical indicators; (b) understanding the details of the specific assets within the scope of valuation through reviewing relevant data and reviewing all kinds of detailed list of asset appraisal to check if there were any omissions in the list according to their experience and relevant data; (c) conducting the onsite inspections of buildings and structures within the scope of valuation and applying different methods in accordance with their features and characteristic to determine the valuation; and (d) investigating and verifying the property rights certificates of buildings and structures in the scope of valuation.

(ii) Land use rights

The Independent Valuer adopted market comparison method in conducting the valuation of the land use rights. Market comparison method is a valuation method to value the subject land based on a replacement model, by comparing the value of the subject land with the traded price of a comparable land sold in the market close to the valuation benchmark date after marking appropriate modifications to traded price. Based on conditions of the subject land valued, factors affecting the price of the subject land valued in comparison mainly included certain location factors and individual factors, such as date of transaction, method of transaction, remaining term of land use rights, accessibility, industry concentration, infrastructure, environment, size and shape of land parcel and plot ratio, etc.

(iii) Long-term equity investment

Pursuant to the Guide for the Administration and Execution of Corporate State-owned Assets Valuation (企業國有資產評估管理操作指南), the long-term equity investments in the controlling subsidiary of an appraised entity should be considered in state-owned assets valuation and appraised individually rather than appraised by the aggregate amount of their assets and liabilities on a consolidated basis. Accordingly, the Independent Valuer adopted the asset-based approach in the valuation to individually investigate into every assets and liabilities of the long-term equity investments of valued entity, including its wholly-owned subsidiaries, which comprehensively reflected the market value of the subsidiaries based on their respective scope of business, operating conditions and asset mix.

The onsite inspections carried out by the Independent Valuer included (a) collecting investment agreements, checking the investees, quantity, original investment amount and return approach of the investment and verifying the balance of the relevant accounts; (b) specifying the contents agreed for long-term investments with special agreement and understanding the impact on investors' rights and interests; (c) ascertaining whether there was a controlling relationship with the investee, clarifying the investment ratio and understanding the investment background and the profile of the investee.

The Independent Valuer collected relevant investment agreements for long-term equity investments and information of the investee, including business license, articles of association, capital verification report, accounting statements as at the Benchmark Date and annual audited report. The Independent Valuer also conducted a comprehensive valuation on wholly-owned and controlling long-term equity investments through firstly valuing the entire equity value of shareholders of the investee acquired and then multiplying the shareholding ratio to conclude the partial equity value of shareholders.

Based on the review of the respective Valuation Reports and (i) having considered that the valuation is in compliance with the PRC valuation standards, laws and regulations; (ii) having considered the independence, qualification and experience of the Independent Valuer; and (iii) having reviewed the scope of work relating to the valuation and whether there are any limitations on the scope of work which might have impact on the valuation conclusions, the Board concurs with the views of the Independent Valuer in the respective Valuation Reports that the adoption of the asset-based approach is the most appropriate approach in arriving at the appraised value of both Tsinlien Electric and TEDA Power and the Board further considers that the assumptions and methodologies adopted by the Independent Valuer (including its assessments on the appreciation of the appraised net asset value of both Tsinlien Electric and TEDA Power) and the results of the valuation are fair and reasonable.

REASONS FOR AND BENEFITS OF THE MERGER

Electric Power System Reform

With the continuous advancement of the electric power system reform in the PRC (the "**Reform**"), a new round of the Reform has introduced a market mechanism to the wholesale of electric power and a competitive mechanism to the retailing of electric power. The Reform further regulates the fees of the grid segment and lowers the price of electricity for general industrial and commercial use, thereby reducing the cost of electricity for enterprises and promoting the development of the real economy. At the same time, qualified power generation enterprises and social capital are allowed to invest in the electric power distribution network and engage in the electricity sales business, advancing effective competition in the electricity sales market. The Reform will change the business model of transmission, distribution and sales of electric power, bringing new opportunities and challenges to the electricity sales market.

In order to actively respond to the opportunities and challenges arising from the Reform, Tsinlien Electric entered into the Agreement with TEDA Power so as to merge with TEDA Power which has satisfied the market entry standards of electricity sales companies with the operational rights as set out in the Measures, details of which are as follows:

(i) The Measures was issued by the Tianjin Development and Reform Commission (天津市發展和改革委員會) and the Tianjin Industrial and Information Technology Commission (天津市工業和信息化委員會) on 5 September 2018 and have become effective for a period of three years from the date of issue.

(ii) According to the Measures, there can be more than one electricity sales company in the designated electricity distribution area, while only one company can possess the operational rights for an electricity distribution network business in the designated area (the "**Operational Rights**").

(iii) The major market entry standards of electricity sales companies with the Operational Rights as set out in the Measures are as follows:

Market admission standards

1. They must obtain the electric power business license (power supply) (電力業務許可證(供電類)) (the "**Electric Power License**").

2. They must undertake to provide general electricity services and fulfil local power supply obligations.

3. They must possess a complete and effective structure and a system of safe production.

Employee qualifications

1. They must hire at least 20 non-part time professional technology, marketing and finance staff that meet the requirements of the electricity distribution business, of which at least two shall be professional management staff with senior qualifications in electricity or economics profession and five shall be professional management staff with mid-level qualifications in electricity or economics profession.

2. The responsible persons for production, technology and safety must have at least five years of experience related to electricity distribution, with mid-level or above work qualification(s) for professional technique or certificate(s) for positional training.

3. They must organise safe production training and assign safety supervision staff as required by laws and regulations.

4. They must possess equipment and maintenance staff that match the electricity distribution capability of the electricity sales company. Electricity sales companies that outsource electric installation to qualified contractors must take responsibility for supervising the work process.

5. They must have suitable facilities, equipment and staff who fulfil dispatch standards and requirements for the electricity distribution business.

Technology requirement

They must have operating facilities and equipment that correspond to the requirements of the electricity sales business. They must also have fixed operating premises appropriate for the size of the electricity sales business as well as information systems and a customer service platforms that satisfy the functions regarding quotation, filing, contract execution, customer service and other functions for participation in market transactions.

Capital requirement

The registered capital of the electricity sales company must be no less than 20% of its total assets.

Satisfaction of market entry standards by TEDA Power

In July 2018, TEDA Power was granted the Electric Power License by Northern China Energy Regulatory Bureau of National Energy Administration (國家能源局華北監管局) (the "**National Energy Administration**"). The Electric Power License is the statutory proof of TEDA Power being permitted to engage in the operation of business in relation to the supply of electricity, including the distribution and sales of electricity. The Electric Power License is non-transferable to any third party and is valid for TEDA Power to engage in the operation of electric power business within the designated areas in the Tianjin Economic and Technological Development Area during the period from 30 July 2018 to 29 July 2038. According to the Provisions on the Administration of Electric Power Business Licenses

(Order of the State Electricity Regulating Commission (No. 9))(電力業務許可證管理規定(國家電力監管委員會令(第9號)), TEDA Power may apply for renewal of the Electric Power License 30 days prior to its expiration.

In addition to being granted the Electric Power License, TEDA Power has satisfied other market entry standards of electricity sales companies with the Operational Rights as set out in the Measures by, including but not limited to, having obtained the qualification to undertake electric power testing from the National Energy Administration. As a result, TEDA Power becomes the only company in Tianjin Economic and Technological Development Area that owns and operates a power distribution network business whilst at the same time being allowed to participate in the market-oriented electric power transactions and the electricity retail business.

With the benefit of being the only company in Tianjin Economic and Technological Development Area that owns and operates an integrated network of power transformation facilities, distribution grids and ancillary facilities, TEDA Power is expected to be able to selectively purchase electricity directly from various sources in the electricity wholesale market, including purchasing electricity from power generation enterprises (including State Grid), purchasing electricity by biddings on Tianjin Electricity Exchange Center (天津電力交易中心) and purchasing electricity from other electricity sales companies, at competitive prices. Such prices are expected to be more competitive than the purchase prices at which Tsinlien Electric purchases electricity from State Grid or other local power generation enterprises (both of which can supply electricity free of any restriction) and distribute and sell to end-user customers in Tianjin Economic and Technological Development Area.

Meanwhile, TEDA Power may also be able to purchase electricity directly from other power generation enterprises outside Tianjin Economic and Technological Development Area and sell to end-user customers in the entire Tianjin municipality.

While TEDA Power has satisfied the market entry standards of electricity sales companies with the Operational Rights, the role of Tsinlien Electric in the electricity market is an electricity sales company without the Operational Rights and can only purchase electricity from State Grid and other local power generation enterprises prior to the Reform and sell electricity to the end-users in the electricity retail market and receive the grid wheeling charges. During the course of this business, Tsinlien Electric rents the power distribution networks and various power system facilities of TEDA Power and is subject to leasing charges payable to TEDA Power in relation thereto. The Group (other than Tsinlien Electric) currently does not have any business which is similar to, or likely competes with, TEDA Power.

Impact of the Merger on TEDA Power

The Merger will bring about changes in TEDA Power in various aspects, including but not limited to the following:

(i) The existing business model of TEDA Power focuses on the operation of power distribution networks rather than the supply of electricity to end-user customers. After the Merger, the business model of TEDA Power will become more balanced, featuring both the operation of power distribution networks and the supply of electricity to end-user customers.

(ii) The cost structure of TEDA Power is expected to change after Tsinlien Electric is merged into TEDA Power. The existing cost structure of TEDA Power mainly includes the cost of procurement of equipment for the business of construction and installation of power transmission and transformation facilities, and the cost of operation of power system facilities and power distribution networks, but does not include cost relating to the business of the application of technology related to new energy and renewable energy, which is subject to future development of such business of TEDA Power. After the Merger, as TEDA Power will take up the role of Tsinlien Electric in operating its existing business of supply of electricity to end-user customers, it is expected that the cost structure of TEDA Power will, after the Merger, also include the cost of purchase of electricity from various sources in the electricity wholesale market. The scope of the cost structure of TEDA Power after the Merger will be wider than the existing cost structure of Tsinlien Electric, which primarily consists of only the cost of purchase of electricity from State Grid and other power plants in Tianjin and leasing cost for its rental of power distribution networks and various power system facilities from TEDA Power, because TEDA Power will, in addition to its existing cost structure as mentioned above, also incur the cost of purchase of electricity when TEDA Power takes up the role of Tsinlien Electric in operating the business of supply of electricity to end-user customers after the Merger.

(iii) Currently, TEDA Power's major source of revenue is derived from leasing of its power distribution networks and various power system facilities to Tsinlien Electric. Following the Completion, other electricity sales companies may have access to provision of electricity sales services in the Tianjin Economic and Technological Development Area after the opening up of Tianjin electricity sales market. As TEDA Power is the only company in possession of the distribution grid and the sole operator of electricity distribution business in this area, it is expected that TEDA Power may derive revenue from operation of power system facilities and power distribution networks in the form of grid wheeling charges from other electricity sales companies.

Business strategies

Upon Completion, it is expected that the absorption and merger will fully integrate the business of Tsinlien Electric and TEDA Power, which will help optimize the management structure, improve the operational efficiency and leverage the advantages of the integration to achieve the following business strategies in favour of TEDA Power after the Merger:

- Closely following the direction of policies of the Reform, expanding the electricity sales market, opening up the incremental electric power distribution grid, accelerating the development of the electricity distribution and retail business, and fully participating in market competition;

- Making full use of the right to operate distribution network in the region to directly participate in the market-oriented electric power transactions, thereby reducing the cost of purchasing electricity and improving the efficiency of electricity transmission and distribution business;

- Grasping the release of user demand driven by the Reform and electric power trading mechanism, strengthening the segment of electricity retail and the extension of the user-value chain, and gradually innovating the electricity sales business model to provide customers with diversified value-added services;

- Accelerating the construction of smart grid infrastructure and developing the analysis and application of information technology and big data to meet the diverse needs brought about by the innovation of business model.

Upon Completion, TEDA Power will take advantage of the market trend and commit to becoming one of the leading regional electric power retailers in Tianjin and continue to further innovate and optimise its management and business model.

Interest of the Company and the Shareholders

Although Tsinlien Electric will be deconsolidated from the Group upon Completion, the Company will in return hold approximately 47.09% of the equity interest in TEDA Power. Since TEDA Power has a more comprehensive scope of business than Tsinlien Electric, the Merger enables the Company to take part in other lines of business in the electricity supply industry, such as construction of electricity supply network, operation of power supply facilities and power distribution networks and application of technology related to new energy and renewable energy, whilst maintaining Tsinlien Electric's current business of supply of electricity to end-user customers. As such, the Company expects to be able to benefit from the comprehensive scope of business structure and the improved performance of TEDA Power that may result in the overall competitiveness created through the aforesaid business strategies.

The Directors believe that the Company, as an indirect substantial shareholder of TEDA Power upon Completion, will be able to enjoy the benefits brought by the Merger as it would allow TEDA Power effectively to respond to national policy guidance and seize the opportunities arising from development of electricity retailing industry and also deliver sustainable business growth with its core competitiveness in the future. Accordingly, the Directors are of the view that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE MERGER

Tsinlien Electric will cease to be a non-wholly owned subsidiary of the Company upon Completion, thus the assets and liabilities and financial results of Tsinlien Electric will no longer be consolidated into the financial statements of the Group.

As Dekken will own approximately 47.09% of the equity interest in TEDA Power upon Completion, the assets and liabilities and financial results of TEDA Power will not be consolidated into the financial statements of the Group. The Group will recognise its approximately 47.09% equity interest in TEDA Power as investment in an associate by accounting for Dekken's share of net identifiable assets and liabilities of TEDA Power at fair value upon Completion, which is equivalent to approximately 47.09% of the sum of the appraised net asset value of Tsinlien Electric and TEDA Power as at the Benchmark Date according to their respective Valuation Reports.

Subject to the review by the auditors, it is estimated that an unaudited gain before taxation and expenses incidental to the Merger of approximately RMB173.7 million will arise from the Merger, which is calculated based on the difference between (i) the fair value of approximately 47.09% equity interest in TEDA Power upon Completion being approximately RMB1,091.5 million (i.e. approximately 47.09% of the sum of the appraised net asset value of Tsinlien Electric and TEDA Power as at the Benchmark Date according to their respective Valuation Reports); and (ii) approximately 94.36% of the carrying amount of the net asset value of Tsinlien Electric attributable to the Shareholders being approximately RMB917.8 million, which was included in the unaudited consolidated financial statements of the Group as at 30 June 2018.

The actual gain to be recognised in the consolidated financial statements of the Group will be calculated based on the net asset value of TEDA Power as at the date of Completion and therefore may vary from the amount mentioned above.

LISTING RULES IMPLICATIONS

Since the Merger involves (i) the deconsolidation of Tsinlien Electric from the Group; and (ii) the acquisition of approximately 47.09% of the equity interest in TEDA power by the Group, pursuant to Rule 14.24 of the Listing Rules, in the case of a transaction involving both acquisition and disposal, the transaction will be classified by reference to the larger of the acquisition or disposal. As the highest applicable percentage ratio in respect of the aforesaid deconsolidation mentioned in (i) above exceeds 25% but less than 75%, and the highest applicable percentage ratio in respect of the aforesaid acquisition mentioned in (ii) above exceeds 5% but less than 25%, the Merger is classified as and constitutes a major disposal of the Company, which is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

So far as the Company is aware, none of the Shareholders is materially interested in the Agreement and the Merger. As such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for approval of the Agreement and the Merger. Tsinlien, being the controlling Shareholder, directly and indirectly holding 673,759,143 shares of the Company (representing approximately 62.81% of the total number of issued shares of the Company as at the Latest Practicable Date), has given its written approval for the Agreement and the Merger. Accordingly, no general meeting of the Company will be convened pursuant to Rule 14.44 of the Listing Rules.

GENERAL

The principal activity of the Company is investment holding. The principal activities of the Group are (i) utilities including supply of electricity, water, 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 engaged in the manufacture and sale of elevators and escalators and provision of port services in Tianjin.

Dekken is an investment holding company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company.

TEDA Investment is a state-owned enterprise wholly-owned by the Tianjin Municipal People's Government. The principal business areas of TEDA Investment are regional development, public utilities, finance and modern services.

RECOMMENDATIONS

The Directors consider that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and that the Merger is in the interests of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Agreement and the Merger, if such a general meeting were to be convened by the Company, the Board would have recommended the Shareholders to vote in favour of the resolutions to approve the Agreement and the Merger.

ADDITIONAL INFORMATION

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

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

FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tianjindev.com).

- annual report of the Company for the year ended 31 December 2015 (pages 55–157);
- annual report of the Company for the year ended 31 December 2016 (pages 57–163);
- annual report of the Company for the year ended 31 December 2017 (pages 55–151); and
- interim report of the Company for the six months ended 30 June 2018 (pages 5–49 and pages 63–64).

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has the following indebtedness:

	As at 31 December 2018 *HK$'000*
Bank borrowings — secured and guaranteed	175,675
Bank borrowings — secured and unguaranteed	56,306
Bank borrowings — unsecured and guaranteed	123,874
Bank borrowings — unsecured and unguaranteed	1,795,875
Amounts due to related parties — unsecured and unguaranteed	333,894
	2,485,624

In addition, the secured bank borrowings were secured by charges over certain buildings and land use rights of the Group.

Saved as aforesaid or as otherwise disclosed herein, and apart from intragroup liabilities, at the close of business on 31 December 2018, the Group did not have any debt securities, other borrowings or loan capital issued and outstanding, agreed to be issued, or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances, the present internal resources and available facilities of the Group, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Owing to the global trade tensions situation, the economic and trade frictions between the leading economies has increasingly intensified and the economic outlook will become more uncertain. The Chinese economy is in the process of transformation and restructuring while economic downward pressure persists.

With the continuous advancement of the Reform, a new round of the Reform has introduced a market mechanism to the wholesale of electric power and a competitive mechanism to the retailing of electric power. The Reform further regulates the fees of the grid segment and lowers the price of electricity for general industrial and commercial use, thereby reducing the cost of electricity for enterprises and promoting the development of the real economy. At the same time, qualified power generation enterprises and social capital are allowed to invest in the electric power distribution network and engage in the electricity sales business, advancing effective competition in the electricity sales market. The Reform will change the business model of transmission, distribution and sales of electric power, bring new opportunities and challenges to the electricity sales market.

Upon Completion, TEDA Power will take advantage of the market trend and commit to becoming one of the leading regional electric power retailers in Tianjin and continue to further innovate and optimize its management and business model. Meanwhile, the Merger would allow TEDA Power effectively to respond to national policy guidance and seize the opportunities arising from development of electricity retailing industry and also deliver sustainable business growth with its core competitiveness in the future.

Asset Valuation Report

Project in respect of the value of the entire shareholders' equity of Tianjin TEDA Tsinlien Electric Power Co., Ltd. in relation to Tianjin TEDA Electric Power Co., Ltd.'s absorption and merger with Tianjin TEDA Tsinlien Electric Power Co., Ltd.

Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司):
Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司):
Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司):

Beijing China Enterprise Appraisals Co., Ltd. accepted the appointment by Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司) ("TEDA Investment"), Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) and Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) to appraise the market value of entire shareholders' equity of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) as of 31 October 2018. The valuation was conducted through necessary valuation procedures by adopting asset-based approach and market approach in accordance with relevant laws, administrative regulations and asset valuation standards, following the independent, objective and fair principles. The asset valuation report is hereby reported as follows:

(I) Valuation purpose: To provide a reference in determining the value of the entire shareholders' equity of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) for the proposed merger by absorption of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) by Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) ("TEDA Power"), a wholly-owned subsidiary of TEDA Investment.

(II) Valuation subject: the value of the entire shareholders' equity of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司).

(III) Scope of valuation: all assets and liabilities of the valued entity, including current assets, fixed assets, construction in progress, intangible assets and land use rights, etc.

(IV) Valuation benchmark date: 31 October 2018

(V) Type of value: market value

(VI) Valuation method: asset-based approach and market approach

(VII) Valuation conclusions: the valuation result under the asset-based approach has been adopted as the valuation conclusion of this asset valuation report. This asset valuation report is only valid for the reference in determining the value for the economic behaviour as described herein. The period of validity of the valuation conclusions lasts for one year from the valuation benchmark date.

In accordance with the Asset Valuation Standards — Enterprise Value, the certified public valuer engaged in the business of enterprise value appraisal shall analyse the applicability of the three basis approaches, namely, income approach, market approach and asset-based approach in light of relevant conditions such as the purpose of the valuation, valuation subject, value type and information collection in adoption of the methodologies in the valuation report. The certified public valuer shall select two or more valuation approaches if different methodologies are suitable for appraising the enterprise values.

The income approach refers to the valuation method that determines the value of the valuation subject by capitalising or discounting the expected income.

The market approach refers to the valuation method that determines the value of the valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases.

The asset-based approach refers to the valuation method that determines the value of valuation subject by appraising the value of various identifiable assets and liabilities on and off the balance sheets, based on the balance sheet of the valuation subject as of the valuation benchmark date.

The valued entity and TEDA Power are engaged in different operations in the simultaneous process of electricity distribution. TEDA Power is engaged in the operation of power distribution networks while the valued entity is principally engaged in the supply of electricity, both of which are connected in certain ways. Given that the purpose of the valuation is determining equity interest in respect of the absorption and merger, it is inappropriate to adopt the income approach in conducting the valuation.

Based on the valuation purpose, valuation subject, value type, information collection and other relevant condition, as well as the conditions for application of the three basic valuation approaches, the market approach and asset-based approach are selected as the valuation methods for this valuation.

As of the valuation benchmark date, the book value of net assets of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) was RMB993,019,700. The entire shareholders' equity under the market approach was valued at RMB1,161,833,100, the appreciation amount was RMB168,813,400 with the appreciation rate of 17%.

The entire shareholders' equity was valued at RMB1,156,843,200 under the asset-based approach and RMB1,161,833,100 under the market approach following the valuation, representing a difference of RMB4,989,900 or 0.43%.

The methodology in determination of valuation under two valuation approaches are different. The market approach compares the valuation subject against, as well as companies and equity (shareholders' equity, securities, etc) that have been concluded in the comparable transactions in the market, so as to arrive at the appraised value of the valuation subject. There are two common methods in the market approach: listed-company comparison and transaction-case comparison.

Listed-company comparison seeks to obtain and analyse the operating and financial data of listed companies and calculate their appropriate price ratios, and then compare and analyse these price ratios with those of the valued enterprise to determine the value of the valuation subject.

Transaction-case comparison seeks to obtain and analyse cases in comparable transactions, acquisitions and mergers by other enterprises and calculate their appropriate price ratios, and then compare and analyse these price ratios with those of the valued entity to determine the value of the valuation subject.

For the transaction-case comparison method, it is difficult to obtain merger precedents similar to the valued entity in the open market in the PRC, and whether non-market value elements exist in the merger process cannot be ascertained. Thus, the transaction-case comparison method is not appropriate in determining the value of the valuation subject. The listed-company comparison method, on the other hand, tends to rely more on publicly available operating and financial data of comparable listed companies, and is therefore more objective and convenient in terms of information access and operation. Hence, the listed-company comparison method has been adopted for the valuation.

This valuation is intended to provide a reference basis for the value of the absorption and merger. Given that the enterprise to be valued is a small-scale regional power supply company and there are very few listed power supply companies in the capital market, the application of the market approach has certain limitations because the selection of listed companies operating in the same industry with similar operation and business model as the valued enterprises are limited under the market approach. Further, there are relatively more factors affecting the capital market, and the price-to-book indicator of each comparable listed company, which is an important factor affecting the valuation, may vary significantly.

The asset-based approach, which objectively reflects the enterprise value, including its assets, liabilities and equities, on the valuation benchmark date from the perspective of acquisition and establishment of asset, combining with the valuation of various identifiable assets of both enterprises involved in the merger, can comprehensively and reasonably reflect the entire equity value of the both enterprises. Given that this valuation is for the purpose of absorption and merger, the equity value to be evaluated shall be considered as the internal value of the valuation subject under ordinary operation. As the valued entity is an asset-intensive company which mostly consist of buildings, structures, machinery equipment and electronic equipment, there are sufficient arm's length information for determining replacement cost and market value of certain fixed assets to arrive at the valuation. As such, it is more reasonable to adopt the valuation result derived by using the asset-based approach as the conclusion of this valuation.

Based on the above analysis, the valuation result under the asset-based approach has been adopted as the valuation conclusion of this valuation report. The result of the valuation of the entire shareholders' equity of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) was RMB1,156,843,200.

In accordance with the valuation conducted under the asset-based approach, as at the valuation benchmark date, the audited book value of total assets of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) was RMB1,289,144,200, the appraised value was RMB1,406,623,300, and the appreciation amount was RMB117,479,100 with the appreciation rate at 9.11%; the audited book value of total liabilities was RMB296,124,500, and the appraised value was RMB249,780,100 with depreciation of RMB46,344,400; the depreciation rate was 15.65%; the audited book value of net assets was RMB993,019,700, the appraised value of net assets was RMB1,156,843,200 and the appreciation amount was RMB163,823,500 with the appreciation rate at 16.5%.

For further details of the valuation results obtained using the asset-based approach, please refer to the following table:

Summary Table for Asset Valuation Results Using Asset-Based Approach
Valuation Benchmark Date: 31 October 2018

Item		**Book value** *(RMB0'000)*	**Appraised value** *(RMB0'000)*	**Appreciation/ depreciation amount** *(RMB0'000)*	**Appreciation rate** *(%)*
		A	B	C = B-A	D = C/A × 100%
Current assets	1	81,565.03	82,064.23	499.20	0.61
Non-current assets	2	47,349.39	58,598.10	11,248.71	23.76
in which: long-term equity investment	3	0.00	0.00	0.00	—
Investment property	4	0.00	0.00	0.00	—
Fixed assets	5	40,046.48	50,977.54	10,931.06	27.30
Construction in progress	6	2,406.68	2,404.47	-2.21	-0.09
Oil and gas assets	7	0.00	0.00	0.00	—
Intangible assets	8	1,414.97	2,816.41	1,401.44	99.04
in which: land use rights	9	1,123.41	2,469.62	1,346.21	119.83
Other non-current assets	10	3,481.26	2,399.68	-1,081.58	-31.07
Total assets	11	**128,914.42**	**140,662.33**	**11,747.91**	**9.11**
Current liabilities	12	23,433.20	23,433.20	0.00	0.00
Non-current liabilities	13	6,179.25	1,544.81	-4,634.44	-75.00
Total liabilities	14	**29,612.45**	**24,978.01**	**-4,634.44**	**-15.65**
Net assets	15	**99,301.97**	**115,684.32**	**16,382.35**	**16.50**

This valuation report has not taken into account the impact of premium or discount which may arise out of the existence or absence of control on the value of the valuation subjects.

This valuation has covered all the assets and liabilities of the entity under valuation. As at the valuation benchmark date, the valued assets included current assets, fixed assets, construction in progress, intangible assets, land use rights and other non-current assets, with a total book value of RMB1,289,144,200; liabilities including current liabilities and non-current liabilities with a total book value of RMB296,124,500; the book value of net assets was RMB993,019,700.

Upon valuation on assets and liabilities of the valued entity within the valuation scope by using the asset-based approach, there were changes in the appraised value of certain assets compared with their book values:

(a) Fixed assets

The fixed assets included under the scope of appraisal involve buildings, structures, machinery equipment, vehicles and electronic equipment. The appraisal results and appreciation/depreciation of fixed assets are set out as follows:

Item	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
	Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
Total buildings and structures	146,171,078.40	74,883,831.98	209,721,188.00	139,364,752.00	43.48	86.11
Total equipment	746,319,409.03	325,580,960.40	750,875,270.00	370,410,636.00	0.61	13.77
Total	892,490,487.43	400,464,792.38	960,596,458.00	509,775,388.00	7.63	27.30

Buildings and structures

The valuer conducted inspections to the buildings and structures that are within the scope of valuation. Contents of inspection included assets verifications, usage condition and assets rights. The inspection period was from 22 October 2018 to 8 November 2018. The major works performed by the valuer in deriving the appraisal value of the buildings and structures as at the valuation benchmark date were as follows:

1. To instruct the finance personnel and asset management personnel to register and report the buildings and structures based on assets inspection as required by the valuer and meanwhile to collect the certificates on the property ownership of the assets appraised and the documents and data reflecting the performance, status and economic and technical indicators.

2. To understand the details of the specific assets within the scope of valuation through reviewing relevant data. Then, the valuer reviewed all kinds of detailed list of asset appraisal to check if there were any omissions in the list according to their experience and relevant data.

3. To conduct the onsite inspections of buildings and structures within the scope of valuation and apply different methods in accordance with their features and characteristic to determine the valuation.

4. To investigate and verify the property rights certificates of buildings and structures in the scope of valuation.

Details of the buildings and structures owned by the valued entity are set out below:

Item	Location	Construction area (m^2)	Usage	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
				Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
0#110KV Station	No. 21 7th Avenue, TEDA	2,774.92	Others	8,438,400.00	253,152.00	17,041,600.00	4,089,984.00	101.95	1,515.62
Shenghuo Qu 35KV Station	1 Xunyuan East Road, TEDA	1,992.12	Others	5,813,200.00	793,272.23	9,922,200.00	3,968,880.00	70.68	400.32
Zone C power buildings	11 Dong Ting 2nd Avenue, TEDA	1,469.37	Others	4,123,700.00	257,439.75	7,046,900.00	2,818,760.00	70.89	994.92
Zone B power switching station	3 Dong Ting 2nd Avenue, TEDA	1,252.98	Others	2,757,900.00	82,737.00	4,708,100.00	1,883,240.00	70.71	2,176.18
Taifeng 35KV Station	22 Taihua Road, TEDA	1,513.88	Others	4,221,200.00	553,163.32	6,905,600.00	2,969,408.00	63.59	436.80
Haijing 35KV Station	No. 16 9th Avenue, TEDA	1,581.25	Others	5,056,988.80	520,533.38	8,171,200.00	4,249,024.00	61.58	716.28
Finance District 35KV Station	9 Xiang Shi Road, East District, TEDA	5,604.31	Others	13,807,780.43	3,717,976.05	23,113,100.00	14,330,122.00	67.39	285.43
1#110KV Station	No. 91, 9th Avenue, TEDA	2,058.65	Others	11,241,795.71	2,990,692.64	17,986,800.00	9,533,004.00	60.00	218.76
Tianbao Living District 35KV Station	Taihu Road 2nd Avenue	1,514.00	Others	6,680,552.00	2,900,472.90	7,623,400.00	6,708,592.00	14.11	131.29
Tiancheng Road Station	No. 39 4th Avenue, TEDA	2,000.00	Others	9,733,916.83	7,924,219.56	9,894,700.00	9,103,124.00	1.65	14.88
3#110KV (Waibao Yuan) Station	TEDA service outsourcing base	6,790.80	Public facility	21,844,317.12	18,173,134.77	23,595,800.00	22,651,968.00	8.02	24.65
Wanlian Mansion	Block 37, No. 2 2nd Avenue, TEDA	359.44	Residential	3,488,371.31	2,157,441.05	9,057,888.00	9,057,888.00	159.66	319.84
Xiao Yuan Office Tower	Room 401/402, 36 Gate, Xiao Yuan Xin Cun, TEDA	282.20	Residential	652,408.32	162,338.02	6,490,600.00	6,490,600.00	894.87	3,898.20
Other structures			Others	4,572,686.33	1,377,775.34	7,391,800.00	3,022,630.00	61.65	119.38
Other ancillary facilities			Others	43,737,861.55	33,019,483.97	50,771,500.00	38,487,528.00	16.08	16.56
Total				146,171,078.40	74,883,831.98	209,721,188.00	139,364,752.00	43.48	86.11

The consideration paid for the buildings and structures were booked at original costs since the date of acquisition and such value depreciated over yearly, resulting in a relatively low carrying amount. The valued entity adopted the cost model to account for the buildings and structures after they had been initially recorded in the books as an asset, which carried at its costs less subsequent accumulated depreciation and impairment loss, thus there was no fair value adjustment during the preparation of the financial statement for the year ended 31 December 2017.

The original cost and carrying amount of buildings increased at appreciation rates of 43.48% and 86.11% respectively. Reasons for the appreciation are as follows: (i) most of the buildings and structures to be valued were constructed during the 1980s and 1990s in the last century. The labor cost and the prices of material and machine in the construction market have shown an increasing trend all along and the inflation in the market price of residential buildings has led to a significant appreciation; (ii) there exists a large gap between the carrying amount and the net appraised value, resulting from the rising costs and the difference in the depreciation term adopted by the company and the depreciation term adopted in the appraisal.

For the purpose of this asset valuation, replacement cost approach is used for the valuation of buildings and structures, while certain residential buildings were evaluated by the market approach:

A. Replacement cost approach

Appraised value = Full replacement cost x newness rate

1. Determination of full replacement cost

   Full replacement cost = integrated construction cost + upfront and other expenses + capital cost

   a. Integrated construction cost represented the direct cost of construction and installation for buildings and structures. The valuer firstly obtained the building plans from the valued entity and calculated the direct cost of construction and installation by reference to their budgets and final accounts as well as other relevant information and then assessed the integrated construction cost for buildings and structures by applying current standards, such as budget, pricing and charge rate as well as and adjustment factors of wages, as set by the local regulations.

   b. Upfront and other expenses of buildings and structures represented the costs and charges and were determined in accordance with the requirements set out by the relevant national ministries and local regulations, which continued in full force as at the valuation benchmark date.

c. Capital cost referred to the bank loan interest incurred from the funds invested in the construction projects by the valued entity, which was calculated at the prevailing lending rate, and the construction period was calculated based on the normal construction cycle by considering that the integrated construction cost and other allocated expenses had been evenly injected during the construction period.

Capital cost = (Integrated construction and installation cost + upfront expenses) x lending rate x construction period ÷ 2

2. Determination of newness cost

The valuer determined the newness rate of buildings and structures by estimated the remaining useful life based on the on-site investigation, as listed below:

Newness rate = Remaining useful life ÷ (remaining useful life + used life) x 100%

3. Determination of appraised value

Appraised value = Full replacement cost x newness rate

B. Market approach

Price of buildings to be evaluated = transaction price of the comparable buildings x normal condition of transaction ÷ condition of the transaction of the comparable buildings x price index for the buildings to be evaluated as at the valuation benchmark date ÷ price index for the comparable buildings as at the transaction date x geographical factor value of the buildings to be evaluated ÷ geographical factor value of the comparable buildings x specific factor value of the buildings to be evaluated ÷ specific factor value of the comparable buildings.

Equipment

The original cost and carrying amount of equipment assets increased at appreciation rates of 0.61% and 13.77% respectively. Reasons for the appreciation are as follows: (i) the increase in the original cost was mainly due to the combined effect of the rising purchase price of equipment and the difference caused by value-added tax offset; (ii) the higher appreciation rate of the carrying amount than that of the original cost was mainly due to the difference of the economic lifetime adopted in the appraisal from the estimated useful lives of equipment adopted by the enterprises.

(b) Intangible assets

The intangible assets included under the scope of appraisal involve the land use right and other intangible assets-software. The appraisal results and appreciation/depreciation of intangible assets are set out as follows:

Item	**Book value** *(RMB)*	**Appraised value** *(RMB)*	**Appreciation amount** *(RMB)*	**Appreciation rate** *(%)*
Land use rights	11,234,086.39	24,696,200.00	13,462,113.61	119.83
Other intangible assets-software	2,915,648.91	3,467,891.20	552,242.29	18.94
Total	14,149,735.30	28,164,091.20	14,014,355.90	99.04

Details of the land use rights owned by the valued entity are set out below:

Location	Area (m^2)	Usage	Building or structure on land	Book value (RMB)	Appraised value (RMB)	Appreciation amount (RMB)	Appreciation rate (%)
4th Avenue, TEDA	2,882.08	Municipal public facility	Tiancheng Road Station	11,234,086.39	20,555,300.00	9,321,213.61	82.97
9th Avenue, TEDA	5,636.44	Municipal public facility	1#110KV Station				
Industrial District, TEDA	21,938.51	Municipal public facility	Zone B power switching station，Haijing 35KV Station，0 #110KV Station				
Taihua Road, TEDA	2,075.07	Municipal public facility	Taifeng 35KV Station				
1 Xunyuan East Road, TEDA	2,524.22	Municipal public facility	Shenghuo Qu 35KV Station				
Muning Road, TEDA	951.88	Municipal public facility	Other structures				
9 Xiang Shi Road, East District, TEDA	4,832.87	Municipal public facility	Finance District 35KV Station				
TEDA service outsourcing base	3,395.40	Public facility land	3#110KV (Waibao Yuan) Station	0.00	1,708,900.00	1,708,900.00	—
East of Dongting Road, South of Haitong Road, TEDA	3,453.20	Public facility land	Other structures	0.00	1,738,000.00	1,738,000.00	—
East District, TEDA	1,378.80	Municipal public facility	Other structures	0.00	694,000.00	694,000.00	—
Room 402/401, 36 Gate, Xiao Yuan Xin Cun, TEDA	153.72	Residential	Xiao Yuan Office Tower	0.00	0.00	0.00	—
Block 37, No. 2, 2nd Avenue, TEDA	510.46	Mansion	Wanlian Mansion	0.00	0.00	0.00	—
Total				11,234,086.39	24,696,200.00	13,462,113.61	119.83

The market comparison method was adopted in conducting the valuation of the land use rights. Market comparison method is a valuation method to value the subject land based on a replacement model, by comparing the value of the subject land with the traded price of a comparable land sold in the market close to the valuation benchmark date after marking appropriate modifications to traded price. Based on conditions of the subject land valued, factors affecting the price of the subject land valued in comparison mainly included certain location factors and individual factors, such as date of transaction, method of transaction, remaining terms of land use rights, accessibility, industry concentration, infrastructure, environment, size and shape of land parcel and plot ratio, etc.

As of the valuation benchmark date, there were certain land use rights of parcels of land owned by the valued entity were gratuitously transferred by the local government on a royalty-free basis years ago. As the properties price of Xiao Yuan Office Tower and Wanlian Mansion included the building properties together with their land use rights, there were no original cost of land use rights as stated in the books. The appraised value and appreciation amount of the land use rights were RMB24,696,200.00 and RMB13,462,113.61 respectively with appreciation rate 119.83%. The appreciation was mainly due to the appreciation of lands since the land price have risen in recent years after the enterprise's earlier acquisition of the land and certain parts of the land are allocated lands with no book value. The appreciation amount of other intangible assets-software was RMB552,242.29 with an appreciation rate of 18.94%. The appreciation was mainly because the company amortised intangible assets with a shorter amortization period and the market approach was adopted in the appraisal while the purchase price of the software fell down to a limited extent but lower than the amount of amortization of the enterprise.

(c) Current assets

The current assets included under the scope of appraisal involve cash and bank deposits, trade receivables, prepayments, other receivables and inventories. The appraisal results and appreciation/depreciation of current assets are set out as follows:

Item	**Book value** *(RMB)*	**Appraised value** *(RMB)*	**Appreciation amount** *(RMB)*	**Appreciation rate** *(%)*
Cash and bank deposits	378,327,547.83	378,327,547.83	0.00	—
Trade receivables	234,292,893.56	238,933,011.14	4,640,117.58	1.98
Prepayments	30,000.00	30,000.00	0.00	—
Other receivables	202,972,835.30	203,334,817.34	361,982.04	0.18
Inventories	26,973.63	16,930.91	-10,042.72	-37.23
Total	815,650,250.32	820,642,307.22	4,992,056.90	0.61

The appraised value and appreciation amount of the current assets were RMB820,642,307.22 and RMB4,992,056.90 respectively with appreciation rate 0.61%. The appreciation was mainly due to the decrease in allowance for trade and other receivables. The valuer identified the impairment loss on trade and other receivables only when there were conclusive evidence for be irrecoverable amounts, whereas the valued entity in fact took into account amounts which are likely to be irrecoverable by reference to aging analysis. For receivables which the valuer considered to be recoverable, their appraised value will not be identified with impairment loss.

(d) Non-current liabilities

The non-current liabilities under the scope of appraisal involve deferred income. Deferred income primarily represented the government grants relating to the completed construction of electrical related engineering and ancillary facilities for local residential communities and are recorded as deferred income and recognised in income statement on a straight-line basis over their useful lives commencing when they are completed and available for use. The reduction of the non-current liabilities is due to the fact that the deferred income which stated as liabilities are determined by the cash basis accounting as if they are realised in immediate settlement for the purpose of valuation.

(VIII) Valuation assumptions

(a) General assumptions

1. It is assumed that there are no material change to the current laws, regulations and policies of the state as well as the macro economic conditions of the state; there are no material change to the political, economic and social environment of the regions where the parties to the transaction are located.

2. It is assumed that the enterprise will continue to operate based on the actual situation of the valued entity's assets as at the valuation benchmark date.

3. It is assumed that there are no material changes in the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the valued entity after the valuation benchmark date.

4. It is assumed that the management of the valued entity is accountable, stable and competent to perform their duties after the valuation benchmark date.

5. Unless otherwise provided, it is assumed that the enterprise fully complies with all relevant laws and regulations.

6. It is assumed that there are no force majeure events or unpredictable factors which may materially and adversely affect the valued entity after the valuation benchmark date.

(b) Special assumptions

1. It is assumed that the accounting policies adopted by the valued entity after the valuation benchmark date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects.

2. It is assumed that the scope of business and the mode of operation of the valued entity after the valuation benchmark date are consistent with the current ones based on the existing management mode and management level.

3. It is assumed the products or services of the valued entity will maintain existing position in the market competition after the valuation benchmark date.

(IX) Date of the Asset Valuation Report

The date of this Asset Valuation Report is 26 November 2018.

Beijing China Enterprise Appraisals. Co., Ltd.

Asset valuer: Li Jianying (李建英)

Asset valuer: Wang Hongyu (王鴻育)

26 November 2018

Asset Valuation Report

Project in respect of the value of the entire shareholders' equity of Tianjin TEDA Electric Power Co., Ltd. in relation to Tianjin TEDA Electric Power Co., Ltd.'s absorption and merger with Tianjin TEDA Tsinlien Electric Power Co., Ltd.

Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司):
Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司):
Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司):

Beijing China Enterprise Appraisals Co., Ltd. accepted the appointment by Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司) ("TEDA Investment"), Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) and Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) to appraise the market value of entire shareholders' equity of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) as of 31 October 2018. The valuation was conducted through necessary valuation procedures by adopting asset-based approach and market approach in accordance with relevant laws, administrative regulations and asset valuation standards, following the independent, objective and fair principles. The asset valuation report is hereby reported as follows:

(I) Valuation purpose: To provide a reference in determining the value of the entire shareholders' equity of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) for the proposed merger by absorption of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) by Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) ("TEDA Power"), a wholly-owned subsidiary of TEDA Investment.

(II) Valuation subject: the value of the entire shareholders' equity of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司).

(III) Scope of valuation: all assets and liabilities of the valued entity, including current assets, fixed assets, construction in progress, intangible assets and land use rights, etc.

(IV) Valuation benchmark date: 31 October 2018

(V) Type of value: market value

(VI) Valuation method: asset-based approach and market approach

(VII) Valuation conclusions: the valuation result under the asset-based approach has been adopted as the valuation conclusion of this asset valuation report. This asset valuation report is only valid for the reference in determining the value for the economic behaviour as described herein. The period of validity of the valuation conclusions lasts for one year from the valuation benchmark date.

In accordance with the Asset Valuation Standards — Enterprise Value, the certified public valuer engaged in the business of enterprise value appraisal shall analyse the applicability of the three basis approaches, namely, income approach, market approach and asset-based approach in light of relevant conditions such as the purpose of the valuation, valuation subject, value type and information collection in adoption of the methodologies in the valuation report. The certified public valuer shall select two or more valuation approaches if different methodologies are suitable for appraising the enterprise values.

The income approach refers to the valuation method that determines the value of the valuation subject by capitalising or discounting the expected income.

The market approach refers to the valuation method that determines the value of the valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases.

The asset-based approach refers to the valuation method that determines the value of valuation subject by appraising the value of various identifiable assets and liabilities on and off the balance sheets, based on the balance sheet of the valuation subject as of the valuation benchmark date.

The valued entity and Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) ("Tsinlien Electric") are engaged in different operations in the simultaneous process of electricity distribution. The valued entity is engaged in the operation of power distribution networks while Tsinlien Electric is principally engaged in the supply of electricity, both of which are connected in certain ways. Given that the purpose of the valuation is determining equity interest in respect of the absorption and merger, it is inappropriate to adopt the income approach in conducting the valuation.

Based on the valuation purpose, valuation subject, value type, information collection and other relevant condition, as well as the conditions for application of the three basic valuation approaches, the market approach and asset-based approach are selected as the valuation methods for this valuation.

As of the valuation benchmark date, the book value of net assets of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) was RMB886,434,200. The entire shareholders' equity under the market approach was valued at RMB1,068,011,500, the appreciation amount was RMB181,577,300 with the appreciation rate of 20.48%.

The entire shareholders' equity was valued at RMB1,161,103,600 under the asset-based approach and RMB1,068,011,500 under the market approach following the valuation, representing a difference of RMB93,092,100 or 8.02%.

The methodology in determination of valuation under two valuation approaches are different. The market approach compares the valuation subject against comparable companies, as well as companies and equity (shareholders' equity, securities, etc) that have been concluded in the comparable transactions in the market, so as to arrive at the appraised value of the valuation subject. There are two common methods in the market approach: listed-company comparison and transaction-case comparison.

Listed-company comparison seeks to obtain and analyse the operating and financial data of listed companies and calculate their appropriate price ratios, and then compare and analyse these price ratios with those of the valued enterprise to determine the value of the valuation subject.

Transaction-case comparison seeks to obtain and analyse cases in comparable transactions, acquisitions and mergers by other enterprises and calculate their appropriate price ratios, and then compare and analyse these price ratios with those of the valued entity to determine the value of the valuation subject.

For the transaction-case comparison method, it is difficult to obtain merger precedents similar to the valued entity in the open market in the PRC, and whether non-market value elements exist in the merger process cannot be ascertained. Thus, the transaction-case comparison method is not appropriate in determining the value of the valuation subject. The listed-company comparison method, on the other hand, tends to rely more on publicly available operating and financial data of comparable listed companies, and is therefore more objective and convenient in terms of information access and operation. Hence, the listed-company comparison method has been adopted for the valuation.

This valuation is intended to provide a reference basis for the value of the absorption and merger. Given that the enterprise to be valued is a small-scale regional power supply company and there are very few listed power supply companies in the capital market, the application of the market approach has certain limitations because the selection of listed companies operating in the same industry with similar operation and business model as the valued enterprises are limited under the market approach. Further, there are relatively more factors affecting the capital market, and the price-to-book indicator of each comparable listed company, which is an important factor affecting the valuation, may vary significantly.

The asset-based approach, which objectively reflects the enterprise value, including its assets, liabilities and equities, on the valuation benchmark date from the perspective of acquisition and establishment of asset, combining with the valuation of various identifiable assets of both enterprises involved in the merger, can comprehensively and reasonably reflect the entire equity value of the both enterprises. Given that this valuation is for the purpose of absorption and merger, the equity value to be evaluated shall be considered as the internal value of the valuation subject under ordinary operation. As the valued entity is an asset-intensive company which mostly consist of buildings, structures, machinery equipment and electronic equipment, there are sufficient arm's length information for determining replacement cost and market value of certain fixed assets to arrive at the valuation. As such, it is more reasonable to adopt the valuation result derived by using the asset-based approach as the conclusion of this valuation.

Based on the above analysis, the valuation result under the asset-based approach has been adopted as the valuation conclusion of this valuation report. The result of the valuation of the entire shareholders' equity of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) was RMB1,161,103,600.

In accordance with the valuation conducted under the asset-based approach, as at the valuation benchmark date, the audited book value of total assets of Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) was RMB1,316,071,300, the appraised value was RMB1,590,740,700, and the appreciation amount was RMB274,669,400 with the appreciation rate at 20.87%; the audited book value of total liabilities was RMB429,637,100, and the appraised value was RMB429,637,100 without appreciation or depreciation; the audited book value of net assets was RMB886,434,200, the appraised value of net asset was RMB1,161,103,600 and the appreciation amount was RMB274,669,400 with the appreciation rate at 30.99%.

For further details of the valuation results obtained using asset-based, please refer to the following table:

Summary Table for Asset Valuation Results Using Asset-Based Approach
Valuation Benchmark Date: 31 October 2018

Item		Book value *(RMB0'000)*	Appraised value *(RMB0'000)*	Appreciation/ depreciation amount *(RMB0'000)*	Appreciation rate *(%)*
		A	B	C = B-A	D = C/A × 100%
Current assets	1	77,962.47	78,035.17	72.70	0.09
Non-current assets	2	53,644.66	81,038.90	27,394.24	51.07
in which: long-term equity investment	3	1,026.44	5,599.68	4,573.24	445.54
Investment property	4	0.00	0.00	0.00	—
Fixed assets	5	20,404.08	42,335.53	21,931.45	107.49
Construction in progress	6	0.00	9.20	9.20	—
Oil and gas assets	7	0.00	0.00	0.00	—
Intangible assets	8	67.06	967.89	900.83	1,343.32
in which: land use rights	9	48.00	944.31	896.31	1,867.31
Other non-current assets	10	32,147.08	32,126.60	-20.48	-0.06
Total assets	11	**131,607.13**	**159,074.07**	**27,466.94**	**20.87**
Current liabilities	12	25,862.83	25,862.83	0.00	0.00
Non-current liabilities	13	17,100.88	17,100.88	0.00	0.00
Total liabilities	14	**42,963.71**	**42,963.71**	**0.00**	**0.00**
Net assets	15	**88,643.42**	**116,110.36**	**27,466.94**	**30.99**

This valuation report has not taken into account the impact of premium or discount which may arise out of the existence or absence of control on the value of the valuation subjects.

This valuation has covered all the assets and liabilities of the entity under valuation. As at the valuation benchmark date, the valued assets included current assets, fixed assets, construction in progress, intangible assets, land use rights and other non-current assets, with a total book value of RMB1,316,071,300; liabilities including current liabilities and non-current liabilities with a total book value of RMB429,637,100; the book value of net assets was RMB886,434,200.

Upon valuation on assets and liabilities of the valued entity within the valuation scope by using the asset-based approach, there were changes in the appraised value of certain assets compared with their book values:

(a) Long-term equity investments

The long-term equity investments within the valuation scope represented the investments in two subsidiaries held by Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司).

The following table set out the profiles of the long-term equity investments as at the valuation benchmark date:

No.	Investee	Principal business	Percentage of interest held by TEDA Power	Book value *(RMB)*	Appraised value *(RMB)*	Appreciation rate *(%)*
1	Tianjin TEDA Electric Power Engineering Co., Ltd. (天津泰達電力工程有限公司)	Installation of electric power engineering, maintenance of electric transmission and distribution facility	100%	8,013,000.00	9,215,741.97	15.01
2	Tianjin TEDA Electronic Engineering Co., Ltd. (天津泰達電子工程有限公司)	Sales of electronic instrument, installation of electric energy metering device and commission maintenance of power transmission substation	100%	2,251,409.20	46,781,025.14	1,977.86
Total				10,264,409.20	55,996,767.11	445.54

Pursuant to the Guide for the Administration and Execution of Corporate State-owned Assets Valuation (企業國有資產評估管理操作指南), the long-term equity investments in the controlling subsidiary of an appraised entity should be considered in state-owned assets valuation and appraised individually rather than appraised by the aggregate amount of their assets and liabilities on a consolidated basis. Accordingly, the valuer adopted the asset-based approach in the valuation to individually investigate into every assets and liabilities of the long-term equity investments of TEDA Power, including its two wholly-owned subsidiaries, which comprehensively reflected the market value of the subsidiaries based on their respective scope of business, operating conditions and asset mix.

The valuer firstly verified the financial accounts and the detailed statement of asset valuation based on the detailed statement of long-term investment evaluation provided by the enterprise. The valuer also conducted the following inspections:

(1) Collecting investment agreements, checking the investees, quantity, original investment amount and return approach of the investment and verifying the balance of the relevant accounts.

(2) Specifying the contents agreed for long-term investments with special agreement and understanding the impact on investors' rights and interests.

(3) Ascertaining whether there was a controlling relationship with the investee, clarifying the investment ratio and understanding the investment background and the profile of the investee.

The valuer collected relevant investment agreements for long-term equity investments and information of investee, including business license, articles of association, capital verification report, accounting statements as at the valuation date and annual audited report.

Using the asset-based approach, the valuer also conducted a comprehensive valuation on wholly-owned and controlling long-term equity shareholding through firstly valuing the entire equity value of shareholders of the investee acquired and then multiplying the shareholding ratio to conclude the partial equity value of shareholders. As at the valuation benchmark date, the appraised value of long-term equity investments was RMB55,996,767.11 and the appreciation was RMB45,732,357.91 with a value-added rate of 445.54%. The reason for the appreciation of the valuation was mainly attributable to the good operation conditions of the investee under long-term equity investments.

Tianjin TEDA Electric Power Engineering Co., Ltd. (天津泰達電力工程有限公司) was established on 17 October 1987 and its registered capital represented the amount originally invested by TEDA Power as at the date of its establishment.

Tianjin TEDA Electronic Engineering Co., Ltd. (天津泰達電子工程有限公司) ("**TEDA Electronic**") was established on 18 April 1996. In January 2007, its registered capital increased from US$200,000 to US$276,000. The investment cost in TEDA Electronic was equal to the sum of initial registered capital and the amount of additional registered capital. As at the valuation benchmark date, TEDA Electronic's major assets included fixed assets and current assets, with a total book value of RMB38,110,200; liabilities represented current liabilities with a total book value of RMB308,800; the book value of net assets was RMB37,801,400. As the operational efficiency and earnings of TEDA

Electronic was on the rise since its establishment in 1996, there was an increase in the appraised value of initial investment by the valued entity as compared to the amounts of registered capital paid when the valued entity was originally invested. Upon valuation of assets and liabilities of TEDA Electronic within the scope by using asset-based approach, there were changes in the appraised value of certain assets compared with its book values:

(i) Fixed assets

The fixed assets included under the scope of appraisal involve buildings, vehicles and electronic equipment. The appraisal results and appreciation/depreciation of fixed assets are set out as follows:

Item	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
	Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
Total buildings	1,383,981.20	272,360.43	9,118,722.00	9,118,722.00	558.88	3,248.03
Total equipment	1,555,698.07	949,342.41	1,156,705.00	1,081,683.00	-25.65	13.94
Total	2,939,679.27	1,221,702.84	10,275,427.00	10,200,405.00	249.54	734.93

The valuer conducted inspections to the buildings that are within the scope of valuation. Contents of inspection included assets verifications, usage condition and assets rights. The major works performed by the valuer in deriving the appraisal value of the buildings as at the valuation benchmark date were as follows:

1. To instruct the finance personnel and asset management personnel to register and report the buildings based on assets inspection as required by the valuer and meanwhile to collect the certificates on the property ownership of the assets appraised and the documents and data reflecting the performance, status and economic and technical indicators.

2. To understand the details of the specific assets within the scope of valuation through reviewing relevant data. Then, the valuer reviewed all kinds of detailed list of asset appraisal to check if there were any omissions in the list according to their experience and relevant data.

3. To conduct the onsite inspections of buildings within the scope of valuation and apply different methods in accordance with their features and characteristic to determine the valuation.

4. To investigate and verify the property rights certificates of buildings in the scope of valuation.

Details of the buildings owned by TEDA Electronic are set out below:

Item	Location	Construction area (m^2)	Usage	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
				Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
104 Block B Dongying Plaza	Block B, Dongying Plaza, 88 Huanghai Road, TEDA	172.11	Storeroom	340,365.20	111,894.99	3,287,301.00	3,287,301.00	865.82	2,837.84
301 Block B Dongying Plaza	Block B, Dongying Plaza, 88 Huanghai Road, TEDA	172.11	Office	660,000.00	66,000.00	3,287,301.00	3,287,301.00	398.08	4,880.76
602 Block B Dongying Plaza	Block B, Dongying Plaza, 88 Huanghai Road, TEDA	133.20	Office/ Storeroom	383,616.00	94,465.44	2,544,120.00	2,544,120.00	563.19	2,593.18
Total				1,383,981.20	272,360.43	9,118,722.00	9,118,722.00	558.88	3,248.03

The consideration paid for the buildings were booked at original costs since the date of acquisition and such value depreciated over yearly, resulting in a relatively low carrying amount. TEDA Electronic adopted the cost model to account for the buildings after they had been initially recorded in the books as an asset, which carried at its costs less subsequent accumulated depreciation and impairment loss, thus there was no fair value adjustment during the preparation of the financial statement for the year ended 31 December 2017.

It is expected that TEDA Electronic will adopt the cost model as its accounting policy to an entire class of buildings by applying its current accounting estimation and judgement on depreciation method and estimation of the useful life of respective assets. As the valuation approaches adopted by the valuer for the purpose of this asset valuation are to reflect the market value of all shareholders' interests of the valued entity as at the valuation benchmark date, and to provide a reference value for the valuation purpose, it may be different from the recognition policy of the valued entity.

The original book value and net book value of buildings increased at appreciation rates of 558.88% and 3,248.03% respectively. The appreciation is mainly due to the inflation in the market price has led to a significant appreciation in recent years after TEDA Electronic's earlier acquisition of the office buildings.

For the purpose of this asset valuation, market approach is used for the valuation of the buildings owned by TEDA Electronic. The formula of market approach is listed below:

Price of buildings to be evaluated = transaction price of the comparable buildings x normal condition of transaction ÷ condition of the transaction of the comparable buildings x price index for the buildings to be evaluated as at the valuation benchmark date ÷ price index for the comparable buildings as at the transaction date x geographical factor value of the buildings to be evaluated ÷ geographical factor value of the comparable buildings x specific factor value of the buildings to be evaluated ÷ specific factor value of the comparable buildings.

(ii) Current assets

The current assets mainly included under the scope of appraisal involve cash and bank deposits, trade receivables, prepayments, other receivables and inventories. The appraisal results and appreciation/depreciation of current assets are set out as follows:

Item	Book value *(RMB)*	Appraised value *(RMB)*	Appreciation amount *(RMB)*	Appreciation rate *(%)*
Cash and bank deposits	34,573,000.08	34,573,000.08	0.00	—
Trade receivables	12,707.10	14,119.00	1,411.90	11.11
Prepayments	61,750.00	61,750.00	0.00	—
Other receivables	90,710.00	90,710.00	0.00	—
Inventories	1,598,000.97	1,598,000.97	0.00	—
Other current assets	551,887.72	551,887.72	0.00	—
Total	36,888,055.87	36,889,467.77	1,411.90	0.004

The appraised value and appreciation amount of the current assets were RMB36,889,467.77 and RMB1,411.90 respectively with appreciation rate 0.004%. The appreciation was mainly due to the decrease in allowance for trade receivables. The valuer identified the impairment loss on trade and other receivables only when there were conclusive evidence for be irrecoverable amounts, whereas TEDA Electronic in fact took into account amounts which are likely to be irrecoverable by reference to aging analysis. For receivables which the valuer considered to be recoverable, their appraised value will not be identified with impairment loss.

The appraised value of long-term equity investments are reflected by the total shareholders' equity interests as at the valuation benchmark date, based on the assumption that the valuation is made on an ongoing premise and the current scale and usage of the assets are unchanged. Given the unavailability of the information in respect of the industry and relevant asset ownership transactions, analysis on asset liquidity is inadequate, and accordingly the valuation does not take into account the effect of asset liquidity to the valuation subject. The valuer also assumed that there is no material change on current laws, regulations and principles and policies of the state as well as no significant adverse effect due to unpredicted factors and other force majeure after the valuation benchmark date.

(b) Fixed assets

The fixed assets included under the scope of appraisal involve buildings, structures, machinery equipment, vehicles and electronic equipment. The appraisal results and appreciation/depreciation of fixed assets are set out as follows:

Item	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
	Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
Total buildings and structures	92,453,618.74	55,334,657.33	143,630,500.00	125,600,882.00	55.35	126.98
Total equipment	683,592,854.18	148,706,115.69	698,306,710.00	297,754,424.00	2.15	100.23
Total	776,046,472.92	204,040,773.02	841,937,210.00	423,355,306.00	8.49	107.49

Buildings and structures

The valuer conducted inspections to the buildings and structures that are within the scope of valuation. Contents of inspection included assets verifications, usage condition and assets rights. The inspection period was from 22 October 2018 to 8 November 2018. The major works performed by the valuer in deriving the appraisal value of the buildings and structures as at the valuation benchmark date were as follows:

1. To instruct the finance personnel and asset management personnel to register and report the buildings and structures based on assets inspection as required by the valuer and meanwhile to collect the certificates on the property ownership of the assets appraised and the documents and data reflecting the performance, status and economic and technical indicators.

2. To understand the details of the specific assets within the scope of valuation through reviewing relevant data. Then, the valuer reviewed all kinds of detailed list of asset appraisal to check if there were any omissions in the list according to their experience and relevant data.

3. To conduct the onsite inspections of buildings and structures within the scope of valuation and apply different methods in accordance with their features and characteristic to determine the valuation.

4. To investigate and verify the property rights certificates of buildings and structures in the scope of valuation.

Details of the buildings and structures owned by the valued entity are set out below:

Item	Location	Construction area (m^2)	Usage	Book value (RMB)		Appraised value (RMB)		Appreciation rate (%)	
				Original cost	Carrying amount	Original cost	Carrying amount	Original cost	Carrying amount
Ruiyuan commercial property	Floor 1–4, No. 25 2nd Avenue, TEDA	1,592.30	Office	8,158,780.00	3,367,864.61	22,292,200.00	22,292,200.00	173.23	561.91
Ruiyuan commercial property	Floor 1–4, No. 3–18 Tengfei Road	3,293.00	Office	11,460,701.98	5,128,655.73	46,102,000.00	46,102,000.00	302.26	798.91
10KV Zhong Hang power switching station	Intersection of Huanghai Road and No. 4 Xingang	283.78	Power station	465,266.93	101,936.17	1,166,100.00	606,372.00	150.63	494.85
Xincheng District 35KV Substation	South of Taida Road	1,500.00	Power station	5,556,053.91	2,404,175.48	7,833,200.00	5,169,912.00	40.98	115.04
Export Processing District 35KV Station	West of Taifeng East Road, Export Processing District, TEDA	1,315.00	Power station	3,743,768.10	2,326,185.20	4,137,500.00	3,185,875.00	10.52	36.96
Muning Road 35KV Station	Muning Road, TEDA	1,500.00	Power station	5,502,539.40	3,418,994.94	6,083,200.00	4,684,064.00	10.55	37.00
Xincheng District No. 2 Substation	Intersection of Xincheng West Road and Guangda Street	1,760.00	Power station	5,216,928.38	3,241,531.05	5,765,200.00	4,439,204.00	10.51	36.95
0#110KV power switching station	East of Nanhai Road, West of Taihua Road, North of 5th Street	1,600.00	Power station	7,864,859.40	4,886,819.34	8,691,500.00	6,692,455.00	10.51	36.95
Fashion Square 35KV Station	East of Beihai Road, TEDA	1,695.00	Power station	5,277,203.18	3,278,982.66	5,831,300.00	4,490,101.00	10.50	36.94
Taihua Road 35KV Station	East of Taihua Road	1,695.00	Power station	7,875,702.57	4,893,556.42	8,704,200.00	6,702,234.00	10.52	36.96
College District 35KV Station	College District	1,695.00	Power station	6,093,952.81	3,786,469.05	6,735,300.00	5,186,181.00	10.52	36.97
No. 2 110KV Station	Intersection of 5th Avenue and Taifeng Road, TEDA	3,091.00	Power station	16,635,316.20	10,662,558.86	18,386,400.00	14,341,392.00	10.53	34.50
Taikang Road 35KV Station	South of 13th Street, TEDA	1,336.20	Power station	7,821,528.87	7,137,481.74	1,094,600.00	1,007,032.00	-86.01	-85.89
Other ancillary facilities				781,017.01	699,446.08	807,800.00	701,860.00	3.43	0.35
Total				92,453,618.74	55,334,657.33	143,630,500.00	125,600,882.00	55.35	126.98

The consideration paid for the buildings and structures were booked at original costs since the date of acquisition and such value depreciated over yearly, resulting in a relatively low carrying amount. The valued entity adopted the cost model to account for the buildings and structures after they had been initially recorded in the books as an asset, which carried at its costs less subsequent accumulated depreciation and impairment loss, thus there was no fair value adjustment during the preparation of the financial statement for the year ended 31 December 2017.

It is expected that the valued entity will adopt the cost model as its accounting policy to an entire class of buildings and structures by applying its current accounting estimation and judgement on depreciation and estimation of the useful life of respective assets. As the valuation approaches adopted by the valuer for the purpose of this asset valuation are to reflect the market value of all shareholders' interests of the valued entity as at the valuation benchmark date, and to provide a reference value for the valuation purpose, it may be different from the recognition policy of the valued entity.

The original cost and carrying amount of buildings increased at appreciation rates of 55.35% and 126.98% respectively. Reasons for the appreciation are as follows: (i) most of the buildings and structures to be valued were constructed ten years ago. The labor cost and the prices of material and machine in the construction market have shown an increasing trend all along and in particular the inflation in the market price of commercial properties has led to a significant appreciation; (ii) there exists a large gap between the carrying amount and the net appraised value, resulting from the rising costs and the difference in the depreciation term adopted by the company and the depreciation term adopted in the appraisal.

For the purpose of this asset valuation, replacement cost approach is used for the valuation of buildings and structures, while two commercial properties (i.e. two Ruiyuan commercial properties as referred to in the table on page 48 of this circular) were evaluated by the income approach:

A. Replacement costs approach

Appraised value = Full replacement cost x newness rate

1. Determination of full replacement cost

   Full replacement cost = integrated construction cost + upfront and other expenses + capital cost

   a. Integrated construction cost represented the direct cost of construction and installation for buildings and structures. The valuer firstly obtained the building plans from the valued entity and calculated the direct cost of construction and installation by reference to their budgets and final accounts as well as other relevant information and then assessed the integrated construction cost for buildings and structures by applying current standards, such as budget, pricing and charge rate as well as and adjustment factors of wages, as set by the local regulations.

b. Upfront and other expenses of buildings and structures represented the costs and charges and were determined in accordance with the requirements set out by the relevant national ministries and local regulations, which continued in full force as at the valuation benchmark date.

c. Capital cost referred to the bank loan interest incurred from the funds invested in the construction projects by the valued entity, which was calculated at the prevailing lending rate, and the construction period was calculated based on the normal construction cycle by considering that the integrated construction cost and other allocated expenses had been evenly injected during the construction period.

Capital cost = (Integrated construction and installation cost + upfront expenses) x lending rate x construction period ÷ 2

2. Determination of newness rate

The valuer determined the newness rate of buildings and structures by estimated the remaining useful life based on the on-site investigation, as listed below:

Newness rate = Remaining useful life ÷ (remaining useful life + used life) x 100%

3. Determination of appraised value

Appraised value = Full replacement cost x newness rate

B. Income approach

The valuer has adopted income approach in the valuation of commercial properties on the basis of capitalisation of net rental income to be derived from the respective properties by reference to comparable rental evidences as available in the relevant market. The formula of income approach is listed below:

Appraised property value = a/(r-s)[1-(1+s)^n/(1+r)^n]-B/(1+r)^m

a – Annual net rental

r – Capitalisation rate

s – Annual average growth rate

n – Remaining term of property

B – Overhaul expense

m – Number of years between valuation benchmark date and overhaul date

(1) Calculation of net income from property:

① Calculation of potential gross rental:

The valuer determines the daily rent per square meter by reference to the rent level of neighbouring comparable properties.

Annual potential gross rental = daily rent per square meter x 365

② Calculation of effective gross income:

The effective gross income represents the potential gross rental after the rental loss during the vacant period.

Annual effective gross income = Annual potential gross rental x (1 – vacancy rate)

③ Annual property operating expense

Operating expense represents the expenditure in relation to the operation and leasing of property as well as other outgoings.

④ Calculation of annual net rental

Annual net rental = Annual effective gross income – Annual property operating expense

(2) Determination of capitalisation rate

The rate is estimated by adding risk-free rate to risk premium. The risk-free rate means the yield of treasury bond interest rate for ten years term as at the valuation benchmark date. The risk premium is determined by taking into account the interest rate risks and office rental in the local area as well as the policies for the property market.

(3) Determination of annual average growth rate

The rate is determined by reference to historical rental growth rate of neighbouring property markets.

(4) Determination of remaining term of property

The remaining term of property is determined by reference to the shorter of remaining useful life of property and the remaining lease term of land. If the remaining lease term of land is longer than the remaining useful life of property, the remaining term would be the remaining lease term of land with the assumption that a complete overhaul of property is necessary.

(5) Determination of overhaul expense

The overhaul expense after the remaining term of property is determined by reference to the overhaul cost incurred by the comparable properties as at the valuation benchmark date.

Equipment

The original cost and carrying amount of equipment assets increased at appreciation rates of 2.15% and 100.23% respectively. Reasons for the appreciation are as follows: (i) the increase in the original cost which was mainly due to the combined effect of the rising purchase price of equipment and the difference caused by value-added tax offset; (ii) the appreciation rate of the carrying amount being higher than that of the original cost which was mainly due to the difference of the economic lifetime adopted in the appraisal from the estimated useful lives of equipment adopted by the enterprises.

(c) Intangible assets

The intangible assets included under the scope of appraisal involve the land use rights and other intangible assets-software. The appraisal results and appreciation/depreciation of intangible assets are set out as follows:

Item	**Book value** *(RMB)*	**Appraised value** *(RMB)*	**Appreciation amount** *(RMB)*	**Appreciation rate** *(%)*
Land use rights	480,000.00	9,443,100.00	8,963,100.00	1,867.31
Other intangible assets-software	190,644.63	235,849.06	45,204.43	23.71
Total	670,644.63	9,678,949.06	9,008,304.43	1,342.23

Details of the land use rights owned by the valued entity are set out below:

Location	Area (m^2)	Usage	Building and structure on land	Book value (RMB)	Appraised value (RMB)	Appreciation amount (RMB)	Appreciation rate (%)
Shenghuo Qu, TEDA, Tianjin	713.69	Public facility land	Shenghuo Qu Lianhe Zhan	480,000.00	474,600.00	-5,400.00	-1.13
South of 13th Street, West of Nanhai Road, TEDA	2,214.30	Public facility land	Taikang Road 35KV Station	0.00	1,114,500.00	1,114,500.00	—
Beihai Road East, 5th Street South	2,105.00	Public facility land	Fashion Square 35KV Station	0.00	1,059,400.00	1,059,400.00	—
Intersection of Xincheng West Road and Guangda Street	1,500.00	Public construction land	Public construction land	0.00	755,000.00	755,000.00	—
East of Nanhai Road, West of Taihua Road, North of 5th Street	6,400.00	Public facility land	110KV power switching station	0.00	3,221,100.00	3,221,100.00	—
West of Taifeng East Road, Export Processing District and South of A4 Road	3,600.00	Public facility land	Export Processing District 35KV Station	0.00	1,811,900.00	1,811,900.00	—
Intersection of East of Taifeng Road and South of 11th Street	2,000.00	Public facility land	35KV power switching station construction	0.00	1,006,600.00	1,006,600.00	—
Total				480,000.00	9,443,100.00	8,963,100.00	1,867.31

The market comparison method was adopted in conducting the valuation of the land use rights. Market comparison method is a valuation method to value the subject land based on a replacement model, by comparing the value of the subject land with the traded price of a comparable land sold in the market close to the valuation benchmark date after marking appropriate modifications to traded price. Based on conditions of the subject land valued, factors affecting the price of the subject land valued in comparison mainly included certain location factors and individual factors, such as date of transaction, method of transaction, remaining terms of land use rights, accessibility, industry concentration, infrastructure, environment, size and shape of land parcel and plot ratio, etc.

It is expected that the valued entity will adopt the cost model as its accounting policy to an entire class of land use rights by applying its current accounting estimation and judgement on amortisation and estimation of the useful life of respective assets. As the valuation approaches adopted by the valuer for the purpose of this asset valuation are to reflect the market value of all shareholders' interests of the valued entity as at the valuation benchmark date, and to provide a reference value for the valuation purpose, it may be different from the recognition policy of the valued entity.

As of the valuation benchmark date, there were certain land use rights of parcels of land owned by the valued entity were gratuitously transferred by the local government on a royalty-free basis years ago. The appraised value and appreciation amount of the land use rights were RMB9,443,100.00 and RMB8,963,100.00 respectively. The appreciation was mainly due to the appreciation of lands since most of lands pending for appraisal are allocated lands with no book value, plus the rising land acquisition cost in recent years. The appreciation amount of other intangible assets-software was RMB45,204.43 with an appreciation rate of 23.71%. The appreciation was mainly because the company amortised the intangible assets and the market approach was adopted in the appraisal while the purchase price of the software did not fall.

(d) Other non-current assets

Other non-current assets that fall within the scope of the valuation consist of available-for-sale financial assets and deferred income tax assets.

Details of other non-current assets are set out in the table below:

Item	Approximate percentage of interest held by TEDA Power *(%)*	Carrying amount *(RMB)*	Appraised value *(RMB)*	Appreciation amount *(RMB)*	Appreciation rate *(%)*
Available-for-sale financial assets:					
— Northern International Trust Co., Ltd. (北方國際信託有限公司)	4.317	297,912,869.37	297,912,869.37	0.00	—
— Tianjin Tai Xin Asset Management Co., Ltd. (天津泰信資產管理有限公司)	4.167	17,429,366.39	17,429,366.39	0.00	—
Deferred income tax assets		6,128,573.09	5,923,812.30	-204,760.79	-3.34
Total		321,470,808.85	321,266,048.06	-204,760.79	-0.06

The carrying amount of available-for-sale financial assets was RMB315,342,235.76 on valuation benchmark date. The valuation subject of available-for-sale financial assets held by the valued unit represents the respective cost of investment in Northern International Trust Co., Ltd. (北方國際信託有限公司) and Tianjin Tai Xin Asset Management Co., Ltd. (天津泰信資產管理有限公司).

The valuer selected the valuation approach for the available-for-sale financial assets within the valuation scope based on the condition, liquidity, control and influence of the market where they operate and determined the inspection procedures pursuant to the purpose of this valuation. The valuer learned the company's business content, investment date, investment cost, shareholding percentage, etc. and reviewed the accounting basis for the investment cost of the available-for-sale financial assets and other information. Since the valued unit only made the investments in October 2018, which was close to the valuation benchmark date, and there was no material change in the invested units, therefore, the appraised value of the available-for-sale financial assets was recognized as its audited carrying amount, which was RMB315,342,235.76. Northern International Trust Co., Ltd. (北方國際信託有限公司), a member company of TEDA Investment, was a state-owned enterprise established under the laws of the PRC in 1987, which is licensed by China Banking and Insurance Regulatory Commission as a non-banking financial institution and engages principally in fund management, fund investment, lending and trust financing related activities. Northern International Trust Co., Ltd. (北方國際信託有限公司) was selected to be the initial batches of the mixed-ownership reform pilot of financial institutions in Tianjin and carried out it mixed-ownership reform scheme in 2017. Being as a subsidiary of TEDA Investment, the valued entity was allowed to take part in the mixed-ownership reform exercise of Northern International Trust Co. (北方國際信託有限公司), Ltd. to acquire approximately 4.317% of its equity interest. The investment cost in Northern International Trust Co., Ltd. (北方國際信託有限公司) was identical to approximately 4.317% of its appraised value as stated in the valuation report of its recent mixed-ownership reform exercise. As to the investment in Tianjin Tai Xin Asset Management Co., Ltd. (天津泰信資產管理有限公司), its audited net asset value in 2017 was determined and adopted as its market value.

The carrying amount of deferred income tax assets was RMB6,128,573.09. The subject matter of valuation was the deferred income tax assets incurred from allowance for trade receivables, impairment loss on construction in progress and the provisions made by the valued entity. Deferred income tax was recognised on differences between the carrying amounts of assets and liabilities in the historical financial information of valued entity and the corresponding tax bases used in the computation of taxable profit, and multiplying by prevailing enterprise income tax rate to determine its amount. Deferred tax assets were recognised to the extent that it was probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised.

The valuer checked the reason of causing deferred income tax asset, and reviewed the relevant accounting requirements for recognizing such deferred income tax assets and multiplied the subject matter of valuation by prevailing enterprise income tax rate to determine the appraised value of the deferred income tax assets, which was RMB5,923,812.30. The depreciation amount of the deferred income tax assets was RMB204,760.79 with depreciation rate 3.34%. The depreciation was mainly due to the decrease in allowance for trade and other receivables and impairment loss on construction in progress.

(e) Current assets

The current assets included under the scope of appraisal involve cash and bank deposits, trade receivables, prepayments, interest receivables, other receivables and inventories. The appraisal results and appreciation of current assets are set out as follows:

Item	**Book value** *(RMB)*	**Appraised value** *(RMB)*	**Appreciation amount** *(RMB)*	**Appreciation rate** *(%)*
Cash and bank deposits	396,575,911.47	396,575,911.47	0.00	—
Trade receivables	174,794,927.96	175,518,250.34	723,322.38	0.41
Prepayments	189,900.00	189,900.00	0.00	—
Interest receivables	2,389,166.67	2,389,166.67	0.00	—
Other receivables	205,004,416.64	205,008,097.42	3,680.78	—
Inventories	670,415.87	670,415.87	0.00	—
Total	779,624,738.61	780,351,741.77	727,003.16	0.09

The appraised value and appreciation amount of the current assets were RMB780,351,741.77 and RMB727,003.16 respectively with appreciation rate 0.09%. The appreciation was mainly due to the decrease in allowance for trade and other receivables. The valuer identified the impairment loss on trade and other receivables only when there were conclusive evidence for irrecoverable amounts, whereas the valued entity in fact took into account amounts which are likely to be irrecoverable by reference to aging analysis. For receivables which the valuer considered to be recoverable, their appraised value will not be identified with impairment loss.

(VIII) Valuation assumptions

(a) General assumptions

1. It is assumed that there are no material change to the current laws, regulations and policies of the state as well as the macro economic conditions of the state; there are no material change to the political, economic and social environment of the regions where the parties to the transaction are located will not experience major changes.

2. It is assumed that the enterprise will continue to operate based on the actual situation of the valued entity's assets as at the valuation benchmark date.

3. It is assumed that there are no material changes in the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the valued entity after the valuation benchmark date.

4. It is assumed that the management of the valued entity is accountable, stable and competent to perform their duties after the valuation benchmark date.

5. Unless otherwise provided, it is assumed that the enterprise fully complies with all relevant laws and regulations.

6. It is assumed that there are no force majeure events or unpredictable factors which may materially and adversely affect the valued entity after the valuation benchmark date.

(b) Special assumptions

1. It is assumed that the accounting policies adopted by the valued entity after the valuation benchmark date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects.

2. It is assumed that the scope of business and the mode of operation of the valued entity after the valuation benchmark date are consistent with the current ones based on the existing management mode and management level.

3 It is assumed the products or services of the valued entity will maintain existing position in the market competition after the valuation benchmark date.

(IX) Date of the Asset Valuation Report

The date of this Asset Valuation Report is 26 November 2018.

Beijing China Enterprise Appraisals. Co., Ltd.

Asset valuer: Li Jianying (李建英)

Asset valuer: Wang Hongyu (王鴻育)

26 November 2018

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, the interests or short positions of the Directors and chief executive of the Company 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 were as follows:

(i) Directors' interests in the shares of the Company

Name of Director	Number of underlying shares held	Approximate percentage of total issued shares
Mr. Wang Zhiyong	8,600,000	0.80%
Dr. Cui Di	2,900,000	0.27%
Mr. Cheung Wing Yui, Edward	600,000	0.06%
Dr. Chan Ching Har, Eliza	600,000	0.06%
Dr. Cheng Hon Kwan	600,000	0.06%
Mr. Mak Kwai Wing, Alexander	600,000	0.06%
Ms. Ng Yi Kum, Estella	600,000	0.06%
Mr. Wong Shiu Hoi, Peter	100,000	0.01%

Notes:

1. All interests are personal interests held in the capacity as a beneficial owner.

2. All interests stated above represent long positions.

(ii) Directors' interests in the share options granted by the Company

Name of Director	Date of grant	Exercise price per share HK$	Number of outstanding share options: Held as at the Latest Practicable Date	Exercise period	*Notes*
Mr. Wang Zhiyong	16/12/2009	5.750	900,000	16/12/2009 — 24/05/2019	*(1)&(2)*
	07/11/2011	3.560	2,800,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	2,800,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	2,100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Dr. Cui Di	07/11/2011	3.560	300,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	800,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	1,800,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Mr. Cheung Wing Yui, Edward	16/12/2009	5.750	300,000	16/12/2009 — 24/05/2019	*(1)&(2)*
	07/11/2011	3.560	100,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	100,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Dr. Chan Ching Har, Eliza	16/12/2009	5.750	300,000	16/12/2009 — 24/05/2019	*(1)&(2)*
	07/11/2011	3.560	100,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	100,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Dr. Cheng Hon Kwan	16/12/2009	5.750	300,000	16/12/2009 — 24/05/2019	*(1)&(2)*
	07/11/2011	3.560	100,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	100,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Mr. Mak Kwai Wing, Alexander	16/12/2009	5.750	300,000	16/12/2009 — 24/05/2019	*(1)&(2)*
	07/11/2011	3.560	100,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	100,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Ms. Ng Yi Kum, Estella	03/12/2010	6.070	300,000	03/12/2010 — 24/05/2019	*(1)&(3)*
	07/11/2011	3.560	100,000	11/11/2011 — 24/05/2019	*(1)&(4)*
	19/12/2012	4.060	100,000	19/12/2012 — 24/05/2019	*(1)&(5)*
	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*
Mr. Wong Shiu Hoi, Peter	20/12/2013	5.532	100,000	20/12/2013 — 24/05/2019	*(1)&(6)*

Notes:

1. The Share Option Scheme had expired on 24 May 2017. At the extraordinary general meeting of the Company held on 19 May 2017, Shareholders passed an ordinary resolution to extend the exercise periods of all the outstanding options granted on 16 December 2009, 3 December 2010, 7 November 2011, 19 December 2012 and 20 December 2013 by the Company under the Share Option Scheme for two years from 24 May 2017 to 24 May 2019.

2. Pursuant to the Share Option Scheme, a total of 14,200,000 share options were granted on 16 December 2009 and accepted by the grantees on the same day, with an exercise price of HK$5.750 and are exercisable from 16 December 2009 to 24 May 2019.

3. Pursuant to the Share Option Scheme, a total of 300,000 share options were granted on 3 December 2010 and accepted by the grantee on the same day, with an exercise price of HK$6.070 and are exercisable from 3 December 2010 to 24 May 2019.

4. Pursuant to the Share Option Scheme, a total of 16,800,000 share options were granted on 7 November 2011 and accepted by the grantees on 11 November 2011, with an exercise price of HK$3.560 and are exercisable from 11 November 2011 to 24 May 2019.

5. Pursuant to the Share Option Scheme, a total of 18,800,000 share options were granted on 19 December 2012 and accepted by the grantees on the same day, with an exercise price of HK$4.060 and are exercisable from 19 December 2012 to 24 May 2019.

6. Pursuant to the Share Option Scheme, a total of 13,750,000 share options were granted on 20 December 2013 and accepted by the grantees on the same day, with an exercise price of HK$5.532 and are exercisable from 20 December 2013 to 24 May 2019.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or 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 (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 provision of the SFO); (ii) were required to be entered in the register required to be kept under section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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. Wang Zhiyong	Tsinlien Investment	Director
	Tsinlien	Director
Dr. Cui Di	Tsinlien Investment	Director
	Tsinlien	Director

3. 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 2017, 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.

4. 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.

5. 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.

6. LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Wang Zhiyong and Dr. Cui Di are directors of Tsinlien Investment 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.

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. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司)	Independent valuer

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

As at the Latest Practicable Date, the Independent Valuer did not have any shareholding, directly or indirectly, in any member 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 of the Group.

As at the Latest Practicable Date, the Independent Valuer did not have any direct or indirect interest in any assets which have been, since 31 December 2017, being the date to which the latest published audited financial statements of the Company 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.

The reports given by the Independent Valuer were made on 26 November 2018 for incorporation herein.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular and which are or may be material:

(a) the equity transfer agreement dated 1 December 2017 entered into between Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) and Tianjin Jinxi Pharmaceutical Technology Co., Ltd. (天津津熙醫藥科技有限公司) in relation to the disposal of the entire equity interest in Tianjin Sega Pharmaceutical Co., Ltd. (天津市新冠製藥有限公司);

(b) the wealth management agreement dated 1 March 2018 entered into between Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) and China Merchants Bank Co., Ltd. (招商銀行股份有限公司) in relation to the subscription of wealth management products in the amount of RMB350,000,000;

(c) the wealth management agreement dated 1 March 2018 entered into between Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) and Industrial Bank Co., Ltd. (興業銀行股份有限公司) in relation to the subscription of wealth management products in the amount of RMB180,000,000;

(d) the wealth management agreement dated 1 March 2018 entered into between Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) and Industrial Bank Co., Ltd. (興業銀行股份有限公司) in relation to the subscription of wealth management products in the amount of RMB80,000,000;

(e) the wealth management agreement dated 1 March 2018 entered into between Tianjin Central Pharmaceutical Co., Ltd. (天津市中央藥業有限公司) and Industrial Bank Co., Ltd. (興業銀行股份有限公司) in relation to the subscription of wealth management products in the amount of RMB90,000,000;

(f) the joint cooperation agreement dated 6 August 2018 entered into between TianJin Jinhao Pharmaceutical Co., Ltd. (天津金浩醫藥有限公司) and Tianjin China Merchants Tianhe Pharmaceutical Technology Development Partnership (limited partnership) (天津招商天合醫藥科技發展合夥企業(有限合夥)) in relation to the partial disposal of equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd. (天津藥物研究院有限公司); and

(g) the Agreement.

Save as disclosed above, there are no other material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular.

10. GENERAL

(a) The registered office of the Company is at Suites 7–13, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

(b) The share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Ms. Lee Su Yee, Bonnia, who is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators of the United Kingdom.

(d) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the registered office of the Company at Suites 7–13, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong from the date of this circular up to 14 days thereafter:

(a) the articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2016 and 2017;

(c) the material contracts referred to in the section headed "Material Contracts" of this appendix;

(d) the TEDA Power Valuation Report;

(e) the Tsinlien Electric Valuation Report;

(f) the written consent referred to in the section headed "Qualification and Consent of Expert" of this appendix;

(g) the circular of the Company dated 10 September 2018; and

(h) this circular.