



红日资本有限公司  
RED SUN CAPITAL LIMITED

5 December 2024

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

Dear Sir or Madam,

**RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS  
WITH TIANJIN TEDA INVESTMENT HOLDING CO., LTD.**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the 2024 Steam Purchase Master Agreement, the 2024 Products Procurement Master Agreement and the 2024 Integrated Services Master Agreement (together the “**2024 Non-exempt Master Agreements**”) and the respective transactions contemplated thereunder (including the respective proposed annual caps (the “**Proposed Annual Caps**”)), details of which are set out in the letter from the board (the “**Letter from the Board**”) in the circular of the Company dated 5 December 2024 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Circular.

As the Existing Steam Purchase Master Agreement, the Existing Products Procurement Master Agreement and the Existing Integrated Services Master Agreement will expire on 31 December 2024, on 15 November 2024, the Company entered into, among others, the 2024 Steam Purchase Master Agreement, the 2024 Products Procurement Master Agreement, and the 2024 Integrated Services Master Agreement with TEDA Holding to renew the continuing connected transactions contemplated under the Existing Steam Purchase Master Agreement, the Existing Products Procurement Master Agreement and the Existing Integrated Services Master Agreement for a term of three years commencing from 1 January 2025 to 31 December 2027.

## **Listing Rules implications**

As at the Latest Practicable Date, Tianjin Bohai, an indirect wholly-owned subsidiary of TEDA Holding, indirectly holds a total of 673,759,143 shares of the Company, representing approximately 62.81% of the total issued shares of the Company. Members of TEDA Holding Group are therefore connected persons of the Company as defined in the Listing Rules. Accordingly, the transactions contemplated under the 2024 Non-exempt Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) calculated based on the proposed annual caps for the respective transactions contemplated under each of the 2024 Non-exempt Master Agreements exceeds 5%, the entering into of the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder are subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened at which ordinary resolutions will be proposed, if thought fit, to approve the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps). The associates of TEDA Holding will abstain from voting on the relevant resolutions.

## **THE INDEPENDENT BOARD COMMITTEE**

The Board currently comprises (i) two executive Directors, namely, Mr. Teng Fei and Dr. Zhai Xinxiang; (ii) one non-executive Director, namely, Mr. Sun Lijun; and (iii) four independent non-executive Directors, namely, Ms. Ng Yi Kum, Estella, Mr. Wong Shiu Hoi, Peter, Mr. Lau Ka Keung and Mr. Sin Hendrick.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to make a recommendation to the Independent Shareholders in relation to the 2024 Non-exempt Master Agreements, which comprised of the 2024 Steam Purchase Master Agreement, the 2024 Products Procurement Master Agreement and the 2024 Integrated Services Master Agreement, and the respective transactions contemplated thereunder (including the Proposed Annual Caps) as to (i) whether the entering into of the 2024 Non-exempt Master Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) is conducted in the ordinary and usual course of business of the Group, and is in the interests of the Company and the Shareholders as a whole; (ii) the terms thereof are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM.

## OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, TEDA Holding and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

Save for this appointment and our appointment as the independent financial adviser in respect of (i) the discloseable and connected transaction for the disposal of 15% equity interest in Tianjin Pharmaceutical Group Finance Co., Ltd.; and (ii) the continuing connected transactions and the proposed revision of annual caps under the 2021 Steam Purchase Master Agreement, details of which are set out in the circular of the Company dated 10 November 2023 and 30 November 2022 respectively, Red Sun Capital has not acted as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

## BASIS AND ASSUMPTIONS OF THE ADVICE

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

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

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the transactions contemplated under the 2024 Non-exempt Master Agreements (including the Proposed Annual Caps), is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation regarding the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder, we have considered the following principal factors and reasons:

### **1. Information on the Group and TEDA Holding**

#### ***1.1 Background information of the Group***

The principal activity of the Company is investment holding. The principal activities of the Group are (i) utilities including supply of electricity, water and heat and thermal power; (ii) pharmaceutical including manufacture and sale of chemical drugs, proprietary Chinese medicines and other healthcare products, 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 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.

*Summary of the historical financial performance of the Group*

Set out below is the summary of the historical financial performance of the Group for the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2023 and 2024, which were extracted from the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”):

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	(HK\$' million)	(HK\$' million)	(HK\$' million)	(HK\$' million)
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	1,820.3	1,830.5	3,338.4	3,705.1
– Utilities	768.7	856.3	1,599.8	1,859.2
– Pharmaceutical	895.4	833.4	1,441.4	1,486.8
– Hotel	66.6	60.4	130.4	77.7
– Electrical and mechanical	89.7	80.4	166.8	281.4
Gross profit	588.5	601.0	1,010.1	1,010.5
Profit for the period/year attributable to the owners of the Company	288.1	371.5	635.6	358.2

*Financial performance of the Group for the six months ended 30 June 2023 and 2024*

We noted from the 2024 Interim Report that revenue of the Group was largely stable at approximately HK\$1,820.3 million for the six months ended 30 June 2024 compared to approximately HK\$1,830.5 million for the six months ended 30 June 2023. Gross profit of the Group for the six months ended 30 June 2024 of approximately HK\$588.5 million was also broadly in line with that of the six months ended 30 June 2023 of approximately HK\$601.0 million.

The slight fluctuation in revenue and gross profit of the Group during the six months ended 30 June 2024 were primarily attributable to the net effects of (i) the decrease in revenue from the utilities segment of approximately HK\$87.6 million or 10.2% from approximately HK\$856.3 million for the six months ended 30 June 2023 to approximately HK\$768.7 million for the six months ended 30 June 2024, which was mainly due to lower government supplemental income in relation to the distribution of heat and thermal power; (ii) the increase in revenue from the pharmaceutical segment of approximately HK\$62.0 million or 7.4% from approximately HK\$833.4 million for the six months ended 30 June 2023 to approximately HK\$895.4 million for the six months ended 30 June 2024, which was

mainly due to the increased revenue from manufacturing and sale of chemical drugs, proprietary Chinese medicines and other healthcare products; (iii) the increase in revenue from hotel segment of approximately HK\$6.2 million or 10.3% from approximately HK\$60.4 million for the six months ended 30 June 2023 to approximately HK\$66.6 million for the six months ended 30 June 2024, which was mainly due to the increased average occupancy rate of the hotel operated by the Group; and (iv) the increase in revenue from electrical and mechanical segment of approximately HK\$9.3 million or 11.6% from approximately HK\$80.4 million for the six months ended 30 June 2023 to approximately HK\$89.7 million for the six months ended 30 June 2024.

Profit for the period attributable to owners of the Company decreased by approximately HK\$83.4 million or 22.4% from approximately HK\$371.5 million for the six months ended 30 June 2023 to approximately HK\$288.1 million for the six months ended 30 June 2024. Such decrease was mainly due to the net effects of (i) the decrease in share of net profit of associates and joint venture of the Company of approximately HK\$91.2 million; (ii) the decrease in general and administrative expenses of approximately HK\$24.8 million; and (iii) the increase in other net losses of approximately HK\$20.5 million.

*Financial performance of the Group for the years ended 31 December 2022 and 2023*

As disclosed in the 2023 Annual Report, while revenue of the Group decreased by approximately HK\$366.7 million or 9.9% from approximately HK\$3,705.1 million for the year ended 31 December 2022 to approximately HK\$3,338.4 million for the year ended 31 December 2023, gross profit of the Group remained broadly stable at approximately HK\$1,010.1 million for the year ended 31 December 2023 compared to approximately HK\$1,010.5 million for the year ended 31 December 2022.

The fluctuation in revenue and gross profit of the Group were primarily the net result of (i) the decrease in revenue from the utilities segment of approximately HK\$259.4 million or 14.0% from approximately HK\$1,859.2 million for the year ended 31 December 2022 to approximately HK\$1,599.8 million for the year ended 31 December 2023, which was mainly due to lower ancillary services income relating to supplying water and the decrease in government supplemental income relating to the distribution of heat and thermal power; (ii) the decrease in revenue from the pharmaceutical segment of approximately HK\$45.4 million or 3.1% from approximately HK\$1,486.8 million for the year ended 31 December 2022 to approximately HK\$1,441.4 million for the year ended 31 December 2023, which was primarily attributable to the decrease in sales of pharmaceutical products and partly offset by the increase in revenue from sale of packaging materials; (iii) the increase in revenue from the hotel segment of approximately HK\$52.7 million or 67.8% from approximately HK\$77.7 million for the year ended 31 December 2022 to approximately HK\$130.4 million for the year ended 31 December 2023, the average occupancy rate increased by approximately 19% to approximately 83.2%

for the year ended 31 December 2023; and (iv) the decrease in revenue from the electrical and mechanical segment of approximately HK\$114.6 million or 40.7% from approximately HK\$281.4 million for the year ended 31 December 2022 to approximately HK\$166.8 million for the year ended 31 December 2023, which was mainly due to lower level of contract works completed in the hydroelectric equipment business.

Profit for the year attributable to owners of the Company increased by approximately HK\$277.4 million or 77.4% from approximately HK\$358.2 million for the year ended 31 December 2022 to approximately HK\$635.6 million for the year ended 31 December 2023. Such increase was primarily attributable to the net effects of (i) the increase in other gains and losses, net of approximately HK\$429.8 million (ii) the increase in share of net profit of associates and joint venture of the Company of approximately HK\$95.4 million; (iii) the increase in tax expense of approximately HK\$50.1 million; (iv) the decrease in other income of approximately HK\$41.0 million; and (v) the decrease in selling and distribution expenses of approximately HK\$38.4 million.

*Summary of the historical financial positions of the Group*

Set out below is a summary of the financial positions of the Group as at 31 December 2022, 31 December 2023 and 30 June 2024, which were extracted from the 2023 Annual Report and the 2024 Interim Report:

	<b>As at 30 June 2024</b>	<b>As at 31 December 2023</b>	<b>2022</b>
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets	11,585.1	11,633.9	11,210.4
Current assets	10,549.5	10,658.7	10,055.8
Non-current liabilities	1,889.3	1,951.9	1,733.9
Current liabilities	2,971.0	2,827.9	3,103.1
Total equity attributable to owners of the Company	12,506.8	12,534.8	12,016.0

*Financial positions of the Group as at 30 June 2024 and 31 December 2023*

We noted from the 2024 Interim Report that total assets of the Group as at 30 June 2024 mainly comprised of (i) investments accounted for using the equity method of approximately HK\$6,887.9 million; (ii) cash and cash equivalents of approximately HK\$3,847.1 million; (iii) time deposits with maturity over three months of approximately HK\$2,182.6 million; (iv) property, plant and equipment of approximately HK\$2,118.4 million; (v) trade receivables of approximately HK\$1,516.9 million; and (iv) equity instruments at fair value through other comprehensive income of approximately HK\$1,235.2 million.

Total liabilities of the Group as at 30 June 2024 mainly included (i) bank borrowings, including both current and non-current portions, of approximately HK\$1,972.7 million; (ii) other payables and accruals of approximately HK\$1,367.5 million; (iii) trade payables of approximately HK\$558.5 million; and (iv) contract liabilities of approximately HK\$513.7 million.

Total equity attributable to owners of the Company as at 30 June 2024 remained largely stable at approximately HK\$12,506.8 million compared to approximately HK\$12,534.8 million as at 31 December 2023.

As set out in the 2023 Annual Report, total assets of the Group as at 31 December 2023 mainly comprised of (i) investments accounted for using the equity method of approximately HK\$6,826.7 million; (ii) cash and cash equivalents of approximately HK\$4,461.1 million; (iii) property, plant and equipment of approximately HK\$2,111.9 million; (iv) time deposits with maturity over three months of approximately HK\$1,926.8 million; (v) equity instruments at fair value through other comprehensive income of approximately HK\$1,719.5 million; and (iv) trade receivables of approximately HK\$1,390.1 million.

Total liabilities of the Group as at 31 December 2023 mainly comprised of (i) bank borrowings, including both current and non-current portions, of approximately HK\$1,810.6 million; (ii) other payables and accruals of approximately HK\$1,294.9 million; (iii) contract liabilities of HK\$632.4 million; and (iv) trade payables of approximately HK\$518.4 million.

Total equity attributable to owners of the Company as at 31 December 2023 of approximately HK\$12,534.8 million was broadly in line with that of 31 December 2022 at approximately HK\$12,016.0 million.



## **1.2 Background information of TEDA Holding**

As at the Latest Practicable Date, TEDA Holding indirectly holds a total of 673,759,143 shares of the Company, representing approximately 62.81% of the total issued shares of the Company. TEDA Holding is a state-owned enterprise established in the PRC which is indirectly wholly-owned by the Tianjin Municipal People's Government of the PRC and principally engages in regional development, public utilities, finance and modern services.

## **2. Overview of the PRC economy, energy production and consumption in the PRC**

### **2.1 Overview of the PRC and Tianjin economy**

Based on publication titled Statistical Bulletin of the PRC on National Economic and Social Development in 2023\* (中華人民共和國2023年國民經濟和社會發展統計公報) by the National Bureau of Statistics of the PRC dated 29 February 2024<sup>1</sup>, the gross domestic product ("GDP") of the PRC in 2023 amounted to approximately RMB126,058.2 billion, representing a yearly increase of approximately 5.2%. The manufacturing industry expanded by approximately 5.0%, and the electricity, heat, gas and water production and supply industry grew by approximately 4.3% in 2023 compared to the corresponding prior year. The total retail sales of consumer goods for 2023 amounted to approximately RMB47,149.5 billion, representing a year-on-year growth of approximately 7.2%.

Based on publication titled Statistical Bulletin of Tianjin National Economic and Social Development in 2023\* (2023年天津市國民經濟和社會發展統計公報) by Tianjin Municipal Bureau of Statistics\* (天津市統計局) dated 18 March 2024<sup>2</sup>, Tianjin's GDP amounted to approximately RMB1,673.7 billion, representing a yearly increase of approximately 4.3%. The manufacturing industry of Tianjin expanded by approximately 2.7% and the electricity, heat, gas and water production and supply industry increased by approximately 11.1% over the corresponding prior year. Total retail sales of consumer goods for 2023 increased by approximately 7.0% over the previous year.

Given the businesses of the Group are mainly located in or around Tianjin, the Group could benefit from opportunities arising from the economic development of the Tianjin, the continued Coordinated Development of the Beijing-Tianjin-Hebei Region\* (京津冀協同發展), and the strategic planning by State Council of the PRC over time. As such, the continuous development in Tianjin and its adjacent regions may have positive impacts to the Group's core businesses.

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<sup>1</sup> Source: [https://www.stats.gov.cn/sj/zxfb/202402/t20240228\\_1947915.html](https://www.stats.gov.cn/sj/zxfb/202402/t20240228_1947915.html)

<sup>2</sup> Source: [https://stats.tj.gov.cn/tjsj\\_52032/tjgb/202403/t20240318\\_6563697.html](https://stats.tj.gov.cn/tjsj_52032/tjgb/202403/t20240318_6563697.html)

## **2.2 Overview of energy production and consumption in the PRC**

As set out in the Letter from the Board, the price of the Steam and Heat Power Products will be determined with reference to, among others, the prices of natural gas with reference to the guidance prices of the same for industrial use as announced by the Tianjin Municipal Development and Reform Commission of the PRC and the current transacted coal prices of local coal exchange or market in the PRC.

As the PRC economy continued to develop and expand, so does the demand for energy consumption. With reference to, among others, the China Natural Gas Development Report (2024)\* (中國天然氣發展報告(2024))<sup>3</sup> published by National Energy Administration of the PRC dated 23 July 2024 and information published by the National Bureau of Statistics, the consumption of natural gas and coal in the PRC have continued to grow in 2023. Given energy production and consumption will remain to be a cornerstone of the continuous development of the PRC economy, it is expected that the PRC government will continue to monitor and regulate the energy production market, including that of the natural gas and coal markets in the PRC.

### **3. Reasons for and the benefits of entering into the 2024 Non-exempt Master Agreements**

We have summarised the reasons for and the benefits of entering into the 2024 Non-exempt Master Agreements as set out in the Letter from the Board below.

#### **(A) The 2024 Steam Purchase Master Agreement**

The Group has been involved in the heat supply industry in TEDA since 2006 and has continued to supply heat and thermal power to industrial, commercial and residential customers in TEDA over the years. The entering into of the 2024 Steam Purchase Master Agreement with TEDA Holding will enable the Group to maintain an uninterrupted supply of heat and thermal power to its customers and is essential for the effective, efficient and continuous operation of the Group's utilities businesses in TEDA.

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<sup>3</sup> Source: [https://www.nea.gov.cn/2024-07/23/c\\_1310782456.htm](https://www.nea.gov.cn/2024-07/23/c_1310782456.htm)

***(B) The 2024 Products Procurement Master Agreement***

Through the TEDA E-Commerce Platform established in November 2023 and operated by the TEDA Holding Group which provides supply chain e-commercial management services, coupled with the TEDA Holding Group's background as a sizable state-owned enterprise with significant bargaining power and the capability to obtain better market price for the Products, by entering into the 2024 Products Procurement Master Agreement, the Group can benefit from the competitive price and reduce its procurement cost in sourcing the Products to meet the Group's operational needs. The Group can also improve the efficiency of procuring supplies through the TEDA E-Commerce Platform which facilitates its daily operational management.

***(C) The 2024 Integrated Services Master Agreement***

TEDA Holding principally engages in, among other things, the provision of modern services. The Company considers that the entering into of the 2024 Integrated Services Master Agreement will enable the Group to enjoy a stable provision of Integrated Services with consistently reliable quality and competitive price from the TEDA Holding Group, which is essential and beneficial to the Group for the effective, efficient and continuous daily operation and business development.

Having considered (i) the utilities segment of the Group is one of the Group's largest segments by revenue, which contributed more than 40% of the Group's revenue during the six month ended 30 June 2024, and each of the two years ended 31 December 2022 and 2023, respectively; (ii) the transactions contemplated under the 2024 Steam Purchase Master Agreement are a furtherance of the Group's business and that the transactions contemplated under the 2024 Products Procurement Master Agreement and the 2024 Integrated Services Master Agreement shall facilitate the operations of the Group; and (iii) the reasons for entering into the respective 2024 Non-exempt Master Agreements as set out above, we concur with the Directors' view that the transactions contemplated under the 2024 Non-exempt Master Agreements are in the interests of the Company and the Shareholders as a whole.

#### **4. The 2024 Non-exempt Master Agreements**

Set out below is a summary of the principal terms of each of the 2024 Steam Purchase Master Agreement, the 2024 Products Procurement Master Agreement and the 2024 Integrated Services Master Agreement, which was entered into by the Company on 15 November 2024, respectively:

##### **(A) *The 2024 Steam Purchase Master Agreement***

###### *Parties*

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

###### *Subject matter*

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

###### *Term*

Subject to the satisfaction of the conditions precedent referred to the 2024 Steam Purchase Master Agreement, for a term of three years commencing from 1 January 2025 to 31 December 2027, unless terminated by either party by giving one month's notice in writing.

###### *Other terms*

For further details on the pricing policy and conditions precedent of the 2024 Steam Purchase Master Agreement, please refer to the section headed "1. The 2024 Steam Purchase Master Agreement" in the Letter from the Board.

##### **(B) *The 2024 Products Procurement Master Agreement***

###### *Parties*

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

###### *Subject matter*

Members of the Group may from time to time purchase the Products as may be required by the Group in its ordinary course of business from members of the TEDA Holding Group based on the business needs of the Group.

### *Term*

Subject to the satisfaction of the conditions precedent referred to the 2024 Products Procurement Master Agreement, for a term of three years commencing from 1 January 2025 to 31 December 2027, unless terminated by either party by giving one month's notice in writing.

### *Other terms*

For further details on the pricing policy and conditions precedent of the 2024 Products Procurement Master Agreement, please refer to the section headed "2. 2024 Products Procurement Master Agreement" in the Letter from the Board.

## **(C) *The 2024 Integrated Services Master Agreement***

### *Parties*

- (1) the Company (for itself and on behalf of its subsidiaries) (as service receiver); and
- (2) TEDA Holding (for itself and on behalf of its subsidiaries) (as service provider).

### *Subject matter*

Members of the Group may from time to time engage members of the TEDA Holding Group for the provision of the Integrated Services as required by the Group in its ordinary course of business.

### *Term*

Subject to the satisfaction of the conditions precedent referred to the 2024 Integrated Services Master Agreement, for a term of three years commencing from 1 January 2025 to 31 December 2027, unless terminated by either party by giving one month's notice in writing.

### *Other terms*

For further details on the pricing policy and conditions precedent of the 2024 Integrated Services Master Agreement, please refer to the section headed "3. 2024 Integrated Services Master Agreement" in the Letter from the Board.

## 5. Internal control measures

As disclosed in the Letter from the Board, with a view to ensuring that the transactions contemplated under the 2024 Non-exempt Master Agreements will be conducted in accordance with its terms and the pricing policies and within the respective proposed cap amounts, the Group has the following internal control measures in place to monitor the relevant transactions:

- (i) the members of the Group will keep track of the offered prices for the Steam and Heat Power Products quarterly, while the offered prices for Products and Integrated Services will be tracked on an individual basis and, where available, compare them with those offered by independent third parties under the supervision of the finance department of the relevant Group members to ensure that the fees or prices for the aforementioned products or services are conducted on normal commercial terms and in accordance with the pricing policies in respect of the 2024 Steam Purchase Master Agreement, the 2024 Products Procurement Master Agreement and the 2024 Integrated Services Master Agreement;
- (ii) the financial management department of the relevant members of the Group will be responsible for preparing the accounting records, reporting, and statistical analysis of the continuing connected transactions, and for submitting the same to the Group on a quarterly basis, to monitor the utilisation of the proposed annual caps and to ensure compliance with the terms of the respective agreement and the pricing policy. The relevant financial management department will also regularly collect and monitor the transaction amounts of the continuing connected transactions quarterly to ensure timely assessment on whether the annual caps are exceeded;
- (iii) the financial management department of the relevant members of the Group will be responsible for obtaining at least two quotations from other independent third party suppliers/service providers (as the case may be) before such member of the Group enter into a transaction under any of the 2024 Non-exempt Master Agreements, and such quotations (or where it is not practicable to obtain a quotation, the relevant reasons and at least two alternative price comparisons/justifications) shall be submitted along with the accounting records, reporting, and statistical analysis as mentioned in paragraph (2) above to the Group; and
- (iv) the external auditors and independent non-executive Directors of the Company will review the transactions contemplated under the 2024 Non-exempt Master Agreements on an annual basis to check and confirm, among other things, whether the pricing policies have been adhered to and whether the proposed annual caps have been exceeded.

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

### 6.1 *Our work performed on the internal control procedures in respect of the 2024 Steam Purchase Master Agreement*

With a view to assessing the reasonableness of the internal control procedures in respect of the 2024 Steam Purchase Master Agreement, we have performed the following work and analysis:

- (i) obtained and reviewed internal approval record for the Existing Steam Purchase Master Agreement, including, the steam purchase master agreement dated 17 November 2021 and the supplemental agreement dated 11 November 2022 entered into between the Company and TEDA Holding in relation to the revision of annual caps under the Existing Steam Purchase Master Agreement by the Board;
- (ii) as advised by the Management, the supply price of Steam and Heat Power Products may adjust subject to the then prevailing market conditions. Under such circumstances, the supply price of Steam and Heat Power Products will be notified by the supplier, being members of TEDA Holding Group, the relevant Tianjin government-owned body. The relevant calculations of the supply price shall be in accordance with the subject pricing policy, including, where applicable, the then applicable prices of natural gas with reference to the relevant guidance prices as announced by the Tianjin Municipal Development and Reform Commission of the PRC and the prevailing transacted coal prices of local coal exchange or market in the PRC;
- (iii) obtained and reviewed 12 agreements entered into between members of the Group and members of the TEDA Holding Group under the Existing Steam Purchase Master Agreement governing the terms of the transactions and any amendments thereof (the “**Sampled Steam Agreement(s)**”). When selecting the samples, we ensured the Sampled Steam Agreements covered each of the years ended / ending 31 December 2022, 2023 and 2024 and that for each of the aforesaid calendar years, we obtained four sample agreements, which covered agreements entered into with each of the two connected persons, being the only two connected suppliers of Steam and Heat Power Products as advised by the Management. Based on our work performed and as confirmed by the Management, the Sampled Steam Agreements were subject to the same internal approval procedures. Given the above factors and the sampling basis, we considered the sampled agreements to be sufficient.

Furthermore, we have reviewed the price calculation table\* (價格測算表) of the price of Steam and Heat Power Products under each Sampled Steam Agreement and further confirmed with the Management that the corresponding supply price was determined with reference to the pricing policy. In addition, we also obtained and reviewed the internal approval records for each of the 12 Sampled Steam Agreements submitted by the finance team\* (財務中心) of Tsinlien Heat & Power and approved by the management of Tsinlien Heat & Power, including, its head of the finance team\* (財務中心) or finance director\* (財務總監), where applicable, and chairman of the board of directors\* (董事長). Given the above factors and our work performed, we considered the transactions under the Sampled Steam Agreement to be fair and reasonable, and on normal commercial terms or better;

- (iv) obtained and reviewed the quarterly records prepared by the finance management department of the Group for monitoring of the utilisation of the proposed annual cap amount for the two years ended 31 December 2023 and for the nine months ended 30 September 2024 under the Existing Steam Purchase Master Agreement, respectively; and
- (v) obtained and reviewed the annual review records and/or the annual reports of the Group setting out that the external auditors and audit committee have reviewed the subject continuing connected transactions under the Existing Steam Purchase Master Agreement, and that no material issues were identified.

Based on our work and analysis performed as set out above, including those in relation to the internal control procedures, we considered that effective implementation of these internal control policies and the pricing policies would ensure the transactions under the 2024 Steam Purchase Master Agreement to be conducted on terms which are fair and reasonable.

## ***6.2 Our work performed on the internal control procedures in respect of the 2024 Products Procurement Master Agreement***

With a view to assessing the reasonableness of the internal control procedures, we have performed the following work and analysis:

- (i) obtained and reviewed internal approval record for the Existing Products Procurement Master Agreement by the Board;



- (ii) obtained and reviewed 24 transactions/quotations/prevaling marking price, which included, (a) six transactions contemplated under the Existing Products Procurement Master Agreement entered into between members of the Group and the members of the TEDA Holding Group; and (b) quotations/prevaling marking price from independent third parties (the “**Sampled Products Transactions**”). When selecting the samples, we ensured the Sampled Products Transactions covered various months up to 31 October 2024 since the commencement Existing Products Procurement Master Agreement, and that the Sampled Products Transactions also covered transactions via the TEDA E-Commerce Platform and those conducted outside the aforesaid platform;

Based on our work performed and as confirmed by the Management, the Sampled Products Transactions entered into with connected parties were subject to the comparison of three quotations and/or market prices of similar products from independent third parties, which is in line with the internal control requirements, to ensure that the purchase price of the subject products for these Sampled Products Transactions with connected party(ies) were fair and reasonable, and on normal commercial terms or better. Given the above factors and sampling basis, we considered the sampled agreements to be sufficient;

- (iii) for the Sampled Products Transactions entered into with connected parties, we compared (a) the unit price of the relevant products under the transactions with connected parties; against (b) the prevailing market price of the relevant products or the unit price of the relevant products as stated in the quotation of the relevant products provided by the independent third party supplier, and noted that the relevant unit price of the transactions with connected parties under the Sampled Products Transactions are not less favourable than the quotation from independent third party supplier;
- (iv) obtained and reviewed the internal approval records for each of the Sampled Products Transactions entered into with connected parties and noted that they were approved by the management of relevant members of the Group, including, its head of the general management department\* (綜合管理部), production operation department\* (生產運行部), logistics and procurement department\* (物流採購部) or the management of finance department\* (財務部), where applicable;
- (v) obtained and reviewed the September 2024 record for the monitoring of the utilisation of the proposed cap amount by the financial management department of the Group for the year ending 31 December 2024 under the Existing Products Procurement Master Agreement; and

- (vi) the external auditors and audit committee shall check and confirm the transactions contemplated under the 2024 Products Procurement Master Agreement on an annual basis, which is considered to be one of the internal control and reporting procedures governing the compliance of the transactions contemplated under the 2024 Products Procurement Master Agreement. The effective implementation of which shall ensure the subject continuing connected transactions to be conducted on normal commercial terms.

Based on our work and analysis performed as set out above, we considered that effective implementation of these internal control policies would ensure the transactions under the 2024 Products Procurement Master Agreement to be conducted on terms which are fair and reasonable.

### **6.3 *Our work performed on the internal control procedures in respect of the 2024 Integrated Services Master Agreement***

- (i) obtained and reviewed internal approval record for the Existing Integrated Services Master Agreement by the Board;
- (ii) obtained and reviewed 15 transactions/quotations in relation to the provision of the integrated services, including, (a) five transactions in progress between members of the Group and the members of the TEDA Holding Group; and (b) relevant quotations provided by independent third party suppliers for comparison purposes, up to 31 October 2024 (the “**Sampled Services Transactions**”). When selecting the samples, we ensured the Sampled Services Transactions covered various months up to 31 October 2024 and that the Sampled Services Transactions also covered transactions with a number of different services. Based on our work performed and as confirmed by the Management, each of the Sampled Services Transactions entered into with connected party(ies) were subject to the comparison of two quotations of comparable services from independent third parties to ensure that the amount charged to the Group for these Sampled Services Transactions by connected party(ies) were fair and reasonable, and on normal commercial terms or better. Given the above factors and sampling basis, we considered the sampled agreements to be sufficient;
- (iii) for the Sampled Services Transactions, we compared (a) the price of the relevant integrated services under the transactions with connected parties; against (b) the relevant quotations of integrated services from two independent third party suppliers for each Sampled Services Transactions, and noted that the relevant price of the Sampled Services Transactions are not less favourable than the quotation provided by the independent third party suppliers;

- (iv) obtained and reviewed the internal approval records for each of the Sampled Services Transactions entered into with connected parties approved by the management of relevant members of the Group, including, its head of the production safety department\*(安全生產部), equipment engineering department\*(裝備工程部), general management department\*(綜合管理部), general manager office\*(總經理辦公室), the management of finance department\*(財務部)\* or the general manager\*(總經理), where applicable;
- (v) obtained and reviewed the September 2024 record for the monitoring of the utilisation of the proposed cap amount by the financial management department of the Group for the year ending 31 December 2024 under the 2024 Integrated Services Master Agreement; and
- (vi) the external auditors and audit committee shall check and confirm the transactions contemplated under the 2024 Integrated Services Master Agreement on an annual basis, which is considered to be one of the internal control and reporting procedures governing the compliance of the transactions contemplated under the 2024 Integrated Services Master Agreement. The effective implementation of which shall ensure the subject continuing connected transactions to be conducted on normal commercial terms.

Based on our work and analysis performed as set out above, we considered that effective implementation of these internal control policies would ensure the transactions under the 2024 Integrated Services Master Agreement to be conducted on terms which are fair and reasonable.

## **7. The Proposed Annual Caps**

### ***(A) The 2024 Steam Purchase Master Agreement***

As extracted from in the Letter from the Board, set out below are (i) the historical transaction amounts paid by the Group to the TEDA Holding Group in respect of the transactions contemplated under the Existing Steam Purchase Master Agreement for the two years ended 31 December 2023 and nine months ended 30 September 2024, and (ii) the proposed annual caps for the three years ending 31 December 2027:

	For the year ended 31 December 2022	For the year ended 31 December 2023	For the nine months ended 30 September 2024
Historical amount (Utilisation rate (%))	RMB1,133,861,000 (84.0%)	RMB947,003,000 (63.1%)	RMB609,710,000 (37.3%) (note 1), on an annualised basis (49.8%) (note 2)

	For the year ending 31 December 2025	For the year ending 31 December 2026	For the year ending 31 December 2027
Proposed annual caps (the “Steam Purchase Annual Caps”)	RMB1,400,000,000 (the “2025 Steam Purchase Annual Cap”)	RMB1,600,000,000 (the “2026 Steam Purchase Annual Cap”)	RMB1,700,000,000 (the “2027 Steam Purchase Annual Cap”)

*Notes:*

1. Based on the historical amount for the nine months ended 30 September 2024.
2. Utilisation based on the annualised amount calculated using the transaction amount for the nine months ended 30 September 2024 is for illustration purposes only and does not represent the actual transaction amount for the year ending 31 December 2024.

The Steam Purchase Annual Caps were determined with reference to the expected demand of Steam and Heat Power Products of the Group from the TEDA Holding Group during the term, the latest government guidance prices for the natural gas and the current transacted coal prices of the local coal exchange or market in the PRC required to produce the Steam and Heat Power Products and the recent market price of such products in the nearby regions. For further details, please refer to the section headed “1. The 2024 Steam Purchase Master Agreement” in the Letter from the Board.

*Our analysis on the Steam Purchase Annual Caps*

As part of our work performed to assess the reasonableness of the Steam Purchase Annual Caps, we have obtained and reviewed the breakdown of each of the 2025 Steam Purchase Annual Cap, 2026 Steam Purchase Annual Cap and 2027 Steam Purchase Annual Cap from the Management (the “**Steam Purchase Annual Caps Breakdown**”).

With reference to the Letter from the Board and based on the Steam Purchase Annual Caps Breakdown, the Steam Purchase Annual Caps were determined with reference to (i) the historical transaction amount in relation to Steam and Heat Power Products; (ii) the expected increase in demand of and the Company's projection of the purchase volume of Steam and Heat Power Products by the Group from the TEDA Holding Group during the term of the 2024 Steam Purchase Master Agreement; and (iii) the latest government guidance prices for the natural gas, and the current transacted prices of coal in the local coal exchange or market in the PRC, both of which are raw materials required to produce the Steam and Heat Power Products, and the recent market prices of such products in the nearby regions.

It is noted that the historical transaction amounts under the Existing Steam Purchase Master Agreement for the each of the years ended 31 December 2022 and 2023, and the nine months ended 30 September 2024<sup>4</sup> (on an annualised basis) fluctuated between approximately RMB812.9 million to approximately RMB1,133.9 million. As the price of natural gas and coal is market driven and had fluctuated historically, the market price of which are beyond the Company's control and that the price trend may be reversed, under such circumstances the historical price of natural gas and coal, which was one of the factors affecting the utilisation of the historical annual caps, may have its limitations as a price reference going forward, therefore for prudent purposes, we have referred to the high-end of the aforesaid historical transaction amount of approximately RMB1,133.9 million to assess the reasonable of the 2025 Steam Purchase Annual Cap. Given (i) the historical transaction amount of approximately RMB1,133.9 million represents over 80% of the 2025 Steam Purchase Annual Cap; and (ii) the top and bottom range represented a difference of approximately 39.5%, which was mainly attributable to one or more of the following factors, including (a) the purchase price of natural gas/coal generated steam over the subject year; (b) the proportion of natural gas/coal generated steam purchased by the Group over the subject year; and/or (c) the total volume of steam purchased in the subject year. On this basis, the actual transaction amount will fluctuate and the Company needs to ensure the annual cap is able to cater for such fluctuations. Having considered the above factors and analysis, we are of the view that the 2025 Steam Purchase Annual Cap is reasonable.

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<sup>4</sup> This is the calculated annualised amount based on the transaction amount for the nine months ended 30 September 2024 of approximately RMB609,710,000, such is used for illustration purposes only and does not purport the actual transaction amount for the year ending 31 December 2024.

For the 2026 and 2027 Steam Purchase Annual Caps, which represented a year-on-year increase of approximately 14.3% and 6.3%, respectively. In this connection, we have conducted market research on the price index of natural gas and coal in the PRC. Based on the pricing of the Liquefied Natural Gas<sup>5</sup> (“LNG”)\* (LNG 報價資料) published by the Shanghai Petroleum and Gas Exchange\* (上海石油天然氣交易中心), the price of LNG on 1 October 2023 ranged from approximately RMB4,000 to RMB5,500 per tonne compared to approximately RMB4,780 to RMB6,000 per tonne on 30 September 2024, representing a yearly increase of approximately 9.1% to 19.5%. For coal, based on information published on the website of China Coal Transport & Distribution Association\* (中國煤炭市場網), the published price index of the Bohai-Rim Steam-Coal Q5500K spot reference price\* (環渤海動力煤現貨參考價)<sup>6</sup> fluctuated from 981 on 28 September 2023 to 871 on 29 September 2024 representing a fluctuation of approximately 11.2%. Upon further analysis, we noted that as recent as 14 June 2023, the subject spot reference price was 772, the spot reference price on 29 September 2024 is therefore approximately 12.8% higher in comparison, thus this supports our analysis that the price of Bohai-Rim Steam-Coal Q5500K spot reference price\* has fluctuated significantly and the annual caps should have sufficient flexibility to cater for such fluctuations going forward.

Given (i) the rate of increase of the 2026 and 2027 Steam Purchase Annual Cap is within the range of the LNG and coal price fluctuation as analysed above; and (ii) the proposed annual caps require a degree of flexibility to cater for steam to be produced by LNG and/or coal, the actual mix of LNG/coal produced steam of which may change over time, we considered the basis of each of the 2026 and 2027 Steam Purchase Annual Cap to be reasonable.

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<sup>5</sup> Source: [www.shpgx.com/html/zhyhdscjzjg.html](http://www.shpgx.com/html/zhyhdscjzjg.html)

<sup>6</sup> Source: [www.cctd.com.cn/index.php?m=content&c=index&a=lists&catid=470&htmlname=HBHCKJ](http://www.cctd.com.cn/index.php?m=content&c=index&a=lists&catid=470&htmlname=HBHCKJ)

**(B) The 2024 Products Procurement Master Agreement**

As extracted from in the Letter from the Board, set out below are (i) the historical transaction amount paid by the Group to TEDA Holding in respect of the transactions contemplated under the Existing Products Procurement Master Agreement for the one month ended 30 September 2024; and (ii) the proposed annual caps for the three years ending 31 December 2027:

	For the period from 1 September 2024 to 30 September 2024		
Historical amount			RMB5,868,000
(Utilisation rate (%))			(9.0%)
	For the year ending 31 December 2025	For the year ending 31 December 2026	For the year ending 31 December 2027
Proposed annual caps	RMB200,000,000	RMB280,000,000	RMB350,000,000
(the "Products	(the "2025 Products	(the "2026 Products	(the "2027 Products
Procurement Annual	Procurement	Procurement	Procurement
Caps")	Annual Cap")	Annual Cap")	Annual Cap")

As set out in the Existing Products Procurement Master Agreement, the cap amount for the term thereunder from 1 September 2024 to 31 December 2024 is RMB65,000,000.

As set out in the Letter from the Board, the abovementioned Products Procurement Annual Caps were determined with reference to the historical consumption record and the expected demand of the Products of the Group for the years ending 31 December 2027 and the prevailing market prices offered by independent supplier of the Group for the procurement of similar products. For further details, please refer to the section headed "2. 2024 Products Procurement Master Agreement" in the Letter from the Board.

*Our analysis on the Products Procurement Annual Caps*

The historical transaction amount for the one month ended 30 September 2024 under the Existing Products Procurement Master Agreement was approximately RMB5.9 million. Based on the above, the calculated transaction amount for a year, on an annualised basis, would be approximately RMB70.4 million.

In addition, we also considered that (i) the Existing Products Procurement Master Agreement was only entered into on 29 August 2024. The Management advised that familiarisation of the subject platform/system, initiating purchases via the TEDA E-commerce Platform or via other means, implementation of relevant internal procedures and the roll-out of procurement arrangement took time; (ii) given the reasons under (i), transaction volume is likely to be lower at the beginning (i.e. during the one month ended 30 September 2024), but the Management expects the transaction volume and amount to gradually increase over time as users become more familiar with the TEDA E-commerce Platform, the arrangement and the related procedures; and (iii) the Products under the 2024 Products Procurement Master Agreement shall primarily comprised of printing and packaging materials for pharmaceutical products under the Group's pharmaceutical segment (the **"Pharmaceutical Packaging Materials"**), which should primarily be accounted for under the "cost of sales" balance, and automated equipment and machineries for the Group's pharmaceutical segment and utilities segment (the **"Equipment and Machineries"**), such automated equipment and machineries should primarily be accounted for under the "property, plant and equipment" balance, together they accounted for over 90% of the 2025 Products Procurement Annual Cap, the remaining of the annual cap comprised of office supplies, consumables and spare parts, and other products as may be required by the Group from time to time based on the business and operational needs of the Group.

We noted from information provided by the Management that during the year ended 31 December 2023, around 80% of such packaging materials were sold to independent third parties, with the remaining 20% being sold to (i) members of Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) (**"Lisheng"**), being a non-wholly owned listed subsidiary of the Group; and (ii) members of Tianjin Pharmaceutical Group Co., Ltd. (天津市醫藥集團有限公司) (the **"Tianjin Pharmaceutical Group"**).

The costs of Pharmaceutical Packaging Materials under the 2025 Products Procurement Annual Cap have been estimated to be in the region of RMB90.0 million. Having considered (i) the purchase of Pharmaceutical Packaging Materials shall facilitate the sale of packaging materials under the Group's pharmaceutical segment; (ii) the value of packaging materials sold to Lisheng and Tianjin Pharmaceutical Group amounted to approximately RMB8.7 million and RMB23.1 million for the year ended 31 December 2023, respectively; (iii) out of the packaging materials sold by the Group, only in the region of 5% were sold to Lisheng, the shares of which are listed on the Shenzhen Stock Exchange, which manufactured, among others, over 8,300 million tablets\* (片劑) and 150 million capsules\* (膠囊), with a revenue of RMB1,153 million during the year ended 31 December 2023, and in the event that Lisheng and/or Tianjin Pharmaceutical Group increases their purchase of processed packaging materials from the Group in the future, our demand of raw materials for packaging may correspondingly increase; (iv) we have conducted research on the PRC pharmaceutical retail market



and considered the information contained in a report published by Deloitte in 2024<sup>7</sup>, which sets out, among others, that the PRC pharmaceutical market<sup>8</sup> (中國醫藥銷售市場規模) is expected to experience continuous growth, the estimated corresponding market size is estimated to be approximately US\$192 billion in 2025, and as set out in the aforesaid report, the year-on-year growth is estimated to be approximately 5.4% and 5.1% for 2026 and 2027, respectively. Given the substantial size of the estimated PRC pharmaceutical market as a whole, the Company's potential growth in this segment can be significant; and (v) the expected growth and continuous development of the PRC pharmaceutical market driven by the advancement of medicine as well as the aging population in the PRC, we are of the view that the basis of the estimated costs of Pharmaceutical Packaging Materials under the 2025 Products Procurement Annual Cap is justifiable.

As for the portion of the 2025 Products Procurement Annual Cap attributable to Equipment and Machineries, based on information obtained from the Management, we understand the Group estimated Equipment and Machineries may include, among others, (i) replacement of various units of machineries in relation to the Group's utilities business segment, such included one or more units of the following machineries, among others, low voltage switchgear\* (低壓開關櫃), pilot plants\* (中試裝置) and ozone generators\* (臭氧發生器), a list of the machineries has been obtained from the Management. The estimated costs of the aforesaid machineries listed above, which are the more expensive machineries, have an estimated costs of RMB0.7 million and above per unit, with the most expensive unit being more than RMB1.9 million, the estimated total cost of machineries in the region of RMB18.0 million in total; and (ii) machineries for automation of production lines in relation to the Group's pharmaceutical business segment, such machineries included, among others, offset printing press\* (膠刷機), waste cleaning die cutting machine\* (全清廢模切機), inkjet equipment\* (噴碼機) and box pasting machine\* (糊盒機), a list of the machineries has been obtained from the Management, the estimated costs of these machineries ranged from RMB0.1 million to not more than RMB18.0 million per unit, which is estimated to cost in the region of RMB52.0 million in total.

As for the 2026 and 2027 Products Procurement Annual Cap, we have reviewed (i) the cost of sales of the Group, which amounted to approximately HK\$2,694.7 million and HK\$2,328.3 million for the year ended 31 December 2022 and 2023; and (ii) the additions to the property, plant and equipment of the Group ranged from approximately HK\$119.8 million to approximately HK\$167.1 million for the years ended 31 December 2022 and 2023 (together the **"Historical Relevant Balances"**). The 2026 and 2027 Products Procurement Annual Cap of RMB280.0 million and RMB350.0 million represents approximately 9.8% and 12.2% of the higher end of the Historical Relevant Balances, respectively.

<sup>7</sup> Source: [www2.deloitte.com/content/dam/Deloitte/cn/Documents/life-sciences-health-care/deloitte-cn-lshc-rising-star-2023-zh-240130.pdf](http://www2.deloitte.com/content/dam/Deloitte/cn/Documents/life-sciences-health-care/deloitte-cn-lshc-rising-star-2023-zh-240130.pdf)

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

Given (i) the basis and our work performed on the breakdown and significant components of the annual caps; (ii) the relevant annual caps represent a moderate percentage of the Historical Relevant Balances respectively as calculated above; (iii) the transactions under the 2024 Products Procurement Master Agreement shall be conducted on terms no less favourable than similar transactions with independent third parties; (iv) the Group has the rights but not the obligation to carry out transactions under the 2024 Products Procurement Master Agreement; and (v) our analysis and assessment on the reasonableness of the annual caps based on historical transaction amounts as well as the potential demands as set out above, we are of the view that the basis of the Products Procurement Annual Caps is fair and reasonableness.

**(C) *The 2024 Integrated Services Master Agreement***

As extracted from in the Letter from the Board, set out below are (i) the historical transaction amount paid by the Group to TEDA Holding in respect of the transactions contemplated under the Existing Integrated Services Master Agreement for the one month ended 30 September 2024, and (ii) the proposed annual caps for the three years ending 31 December 2024:

	For the period from 1 September 2024 to 30 September 2024		
Historical amount	RMB1,401,000		
	For the year ending 31 December 2025	For the year ending 31 December 2026	For the year ending 31 December 2027
Proposed annual caps	RMB150,000,000	RMB180,000,000	RMB200,000,000
(the "Integrated Services Annual Caps")	(the "2025 Integrated Services Annual Cap")	(the "2026 Integrated Services Annual Cap")	(the "2027 Integrated Services Annual Cap")

As set out in the Existing Integrated Services Master Agreement, the cap amount for the term thereunder from 1 September 2024 to 31 December 2024 is RMB17,000,000.

As set out in the Letter from the Board, the abovementioned Integrated Services Annual Caps were determined with reference to, including, the historical consumption record of the Integrated Services and the price offered by independent services providers of the Group for providing similar services. For further details, please refer to the section headed "3. 2024 Integrated Services Master Agreement" in the Letter from the Board.

*Our analysis on the Integrated Services Annual Caps*

We have obtained and reviewed the annual cap breakdown for the 2024 Integrated Services Master Agreement from the Management (the “**Integrated Services Annual Cap Schedule**”). From our review of the Integrated Services Annual Cap Schedule, we noted that the Management expects the integrated services to cover a wide range of services, including but not limited to, construction contracting services, property management services, labour works, greenery services, canteen management services, costs advisory services and tender agency services, etc. Out of the aforesaid services, the largest contributors are expected to be construction contracting services and property management services, which is estimated to contribute in the region of 80% of the 2025 Integrated Services Annual Cap, in aggregate.

We noted from the Integrated Services Annual Cap Schedule that the construction contracting services may comprise of, where applicable, (i) facility repair and maintenance services; (ii) construction and engineering works; (iii) surveying services; (iv) construction supervisory services; and (v) audit of construction works. The Management estimates that the Group would undertake a sizeable replacement/redevelop construction projects\* (重置項目), which comprised not less than 10 different type of contracting works / components and not less than 10 new construction projects (together the “**Construction Contracting Services/Works**”) under its utilities segment and pharmaceutical segment, that may require construction contracting services. It is estimated that the largest five Construction Contracting Services/Works by estimated cost, ranged from more than RMB5 million to not more than RMB25 million, subject to the relevant work scope, required services, scale and timeline of the subject project. The aforesaid largest five Construction Contracting Services/Works comprised, among others, factory redevelop/renovation project\* (廠房工程改造項目), transportation management centre heat pipe network repair and maintenance services\* (運管中心熱力管網大修、檢修及搶修專案外委施工) and the replacement of regulating reservoir\* (調節池).

As for the property management services, the Management advised that such may comprise of, where applicable, (i) general day-to-day management services relating to a property; (ii) management of the environment of a property; (iii) repair, maintenance and improvement of a property; (iv) facility management relating to a property; (v) human resources management relating to personnel involved in the management of a property; and (vi) other ancillary management services relating to a property. The Management estimates that the Group would require property management services for the facilities and offices at the water treatment plant as well as its pharmaceutical factories with an aggregate site area of over 170,000 square metres, with an estimated management fee per square metre in the region of RMB7 per square metre per month.

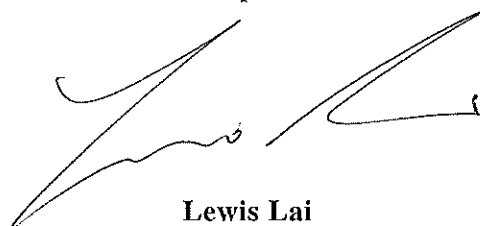
In addition to our analysis above, we also noted that the costs associated with the construction contracting services accounted for in the region of 70% of the 2025 Integrated Services Annual Cap, which was primarily accounted for under the cost of sales or under property, plants and equipment of the Group. For information purposes only, the cost of sales of the Group and additions to the property, plants and equipment amounted to approximately HK\$2,328.3 million and HK\$119.8 million for the year ended 31 December 2023 (together the “**2023 Costs Balance**”). Based on the above, the estimated costs associated with the construction contracting services under the 2025 Integrated Services Annual Cap represents less than 5% of the 2023 Costs Balance. As for the other integrated services under the 2025 Integrated Services Annual Cap, the majority of which should be accounted for under the general and administrative expenses of the Group. For information purposes only, the general and administrative expenses of the Group amounted to approximately HK\$409.5 million for the year ended 31 December 2023 (the “**2023 G&A Expenses**”). Based on the above, the estimated costs associated with other integrated services under the 2025 Integrated Services Annual Cap represents less than 10% of the 2023 G&A Expenses. Having considered the basis of the 2025 Integrated Services Annual Cap and the costs associated with the relevant integrated services represent only a moderate percentage of, where applicable, the 2023 Cost of Sales/the 2023 G&A Expenses, we consider the basis of the 2025 Integrated Services Annual Cap to be reasonable.

The 2026 Integrated Services Annual Cap and the 2027 Integrated Services Annual Cap represent a year-on-year increase of approximately 20.0% and 11.1%, respectively. Given the cost components of construction contracting and property management services, the two largest components of the annual caps by amount, are mainly driven by labour costs, we have conducted research into the movement in salary in Tianjin. Based on statistics published by the Census and Statistics of the Tianjin government\* (天津市統計局) in June 2024, the average salary of employees for non-government positions in cities\* (城鎮私營單位就業人員年平均工資) increased by approximately 8.5% from 2022 to 2023, and more specifically for the relevant services, such as, electricity, heat, gas and water production and supply industry\* (電力, 熱力, 燃氣及水生產和供應業), water conservancy, environment and public facilities management industry\* (水利環境和公共設施管理業) and residential repair services and other services\* (居民服務維修和其他服務業), increased by approximately 8.4% to 16.7%. Furthermore, the Company also needs to take into account of non-routine repair and maintenance services attributable to unforeseeable circumstances and/or on an emergency basis, in particular, as it is of paramount importance that the Group maintains its operational capacities and capabilities for its utility services related operations without any prolonged disruptions with a view to avoid circumstances which the utilities services to be provided to the public is adversely impacted. Hence, a degree of flexibility should be incorporated in the annual caps to ensure any related contracting services are carried out in a timely manner. On this basis, we are of the view that the growth rate and the basis of the 2026 Integrated Services Annual Cap and the 2027 Integrated Services Annual Cap to be fair and reasonable.

## RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the entering into of the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps) is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps) are on normal commercial terms that are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2024 Non-exempt Master Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**



**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in the corporate finance industry.*

\* *For identification purpose only*