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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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

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

(Stock Code: 882)

MAJOR AND CONNECTED TRANSACTIONS

ACQUISITION OF (1) 56.62% EQUITY INTEREST IN TIANJIN TIANDUAN PRESS CO., LTD. AND (2) 66% EQUITY INTEREST IN TIANJIN TIANFA HEAVY MACHINERY & HYDRO POWER EQUIPMENT MANUFACTURE CO., LTD.

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

Investec

A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 13 of this circular. A letter from Investec containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 28 of this circular.

22 November 2012

CONTENTS

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

"Acquisitions"	collectively, the Tianduan Acquisition and the Tianfa Equipment Acquisition
"Agreements"	collectively, the Tianduan Agreement and the Tianfa Equipment Agreement
"Board"	the board of Directors
"Company"	Tianjin Development Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Directors"	the directors of the Company
"Enlarged Group"	the Group as enlarged by the Acquisitions
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee comprising all the independent non-executive Directors, which has been established to advise the Independent Shareholders on the Agreements
"Independent Shareholders"	all the Shareholders as no Shareholder is required to abstain from voting in relation to the approval of the Acquisitions
"Investec" or "Independent Financial Adviser"	Investec Capital Asia Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Latest Practicable Date"	20 November 2012, 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

"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers
"Parties"	the parties to the Agreements, namely Tianjin Benefo and Tianjin Tai Kang
"PRC"	the People's Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Previous Acquisition"	the acquisition of 21.83% equity interest of Tianduan by way of capital injection of RMB135,000,000 as disclosed in the Company's announcement dated 11 October 2011 and its circular dated 11 November 2011
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of Share(s) from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in the Listing Rules
"Target Companies"	the Tianduan Group and Tianfa Equipment
"Tianduan"	Tianjin Tianduan Press Co., Ltd. (天津市天鍛壓力機有限公司), a company incorporated in the PRC with limited liability
"Tianduan Acquisition"	the acquisition of Tianduan Equity Interest from Tianjin Benefo by Tianjin Tai Kang pursuant to the Tianduan Agreement and the transactions contemplated thereunder
"Tianduan Agreement"	the share transfer agreement dated 1 November 2012 entered into between Tianjin Benefo as vendor and Tianjin Tai Kang as purchaser in relation to the Tianduan Acquisition
"Tianduan Equity Interest"	56.62% of the registered capital of Tianduan
"Tianduan Group"	Tianduan and its subsidiaries
"Tianfa Equipment"	Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. (天津市天發重型水電設備製造有限公司), a company incorporated in the PRC with limited liability

"Tianfa Equipment Acquisition"	the acquisition of Tianfa Equipment Equity Interest from Tianjin Benefo by Tianjin Tai Kang pursuant to the Tianfa Equipment Agreement and the transactions contemplated thereunder
"Tianfa Equipment Agreement"	the share transfer agreement dated 1 November 2012 entered into between Tianjin Benefo as vendor and Tianjin Tai Kang as purchaser in relation to the Tianfa Equipment Acquisition
"Tianfa Equipment Equity Interest"	66% of the registered capital of Tianfa Equipment
"Tianjin Benefo"	Tianjin Benefo Machinery & Electric Holding Co., Ltd. (天津百利機電控股集團有限公司), a company incorporated in the PRC with limited liability holding 56.62% of the registered capital of Tianduan and 66% of the registered capital of Tianfa Equipment respectively prior to the completion of the Acquisitions
"Tianjin SASAC"	State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government
"Tianjin Tai Kang"	Tianjin Tai Kang Industrial Co., Ltd. (天津泰康實業有限公司), a company incorporated in the PRC with limited liability, which is owned as to 82.74% by the Company and 17.26% by Tianjin Benefo
"Tsinlien"	Tsinlien Group Company Limited, a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company directly and indirectly holding approximately 58.56% of the issued share capital of the Company as at the Latest Practicable Date
"Vigers" or "Valuer"	Vigers Appraisal & Consulting Limited, an independent third party and a valuer firm with asset valuation qualification in Hong Kong
"%"	per cent.

In this circular, RMB has been translated to HK$ at the rate of RMB0.81301 = HK$1.00 for illustration purpose. No representation is made that any amounts in RMB or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

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

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

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

(Stock Code: 882)

Executive Directors:
Mr. Yu Rumin *(Chairman)*
Mr. Wu Xuemin *(General Manager)*
Mr. Dai Yan
Mr. Bai Zhisheng
Mr. Zhang Wenli
Mr. Wang Zhiyong
Dr. Wang Weidong

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

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

22 November 2012

To the Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS ACQUISITION OF (1) 56.62% EQUITY INTEREST IN TIANJIN TIANDUAN PRESS CO., LTD. AND (2) 66% EQUITY INTEREST IN TIANJIN TIANFA HEAVY MACHINERY & HYDRO POWER EQUIPMENT MANUFACTURE CO., LTD.

INTRODUCTION

Reference is made to the announcement of the Company dated 1 November 2012 in relation to the Acquisitions.

The purpose of this circular is, inter alia, (i) to provide you with further information relating to the Acquisitions, the Agreements and the transactions contemplated thereunder; and (ii) to set out the opinions and recommendations of the Independent Board Committee and Investec, being the Independent Financial Adviser.

THE TIANDUAN AGREEMENT

On 1 November 2012, Tianjin Tai Kang, a non wholly-owned subsidiary of the Company, entered into the Tianduan Agreement with Tianjin Benefo, pursuant to which Tianjin Benefo has conditionally agreed to sell and Tianjin Tai Kang has conditionally agreed to acquire Tianduan Equity Interest, representing 56.62% of the registered capital of Tianduan subject to the terms and conditions of the Tianduan Agreement.

Date

1 November 2012

Parties

(1)	Vendor	:	Tianjin Benefo
(2)	Purchaser	:	Tianjin Tai Kang, a non wholly-owned subsidiary of the Company

Information on Tianduan

Tianduan is a company incorporated in the PRC with limited liability and has a registered capital of RMB50,776,000, and is owned as to 56.62%, 21.83% and 21.55% by Tianjin Benefo, Tianjin Tai Kang and Mr. Wu Ri respectively at the date of the Tianduan Agreement. Tianduan is principally engaged in the manufacture and sale of presses and mechanical equipment, repair, installation, research and provision of consultation services of presses and wholesale and retail of accessories of presses. As Tianduan was jointly established by Tianjin Benefo with certain other parties, there is no original purchase cost of Tianduan to Tianjin Benefo.

In accordance with the Hong Kong Financial Reporting Standards, the profits before and after taxation of Tianduan for the financial years ended 31 December 2011 and 2010 were as follows:

	For the year ended 31 December	
	2011	**2010**
	RMB	***RMB***
Profits before taxation	66,790,000	31,131,000
Profits after taxation	56,398,000	25,686,000

Upon completion of the Tianduan Acquisition, Tianjin Tai Kang will hold 78.45% of the registered capital of Tianduan.

Consideration and Payment Terms

The consideration for the Tianduan Acquisition is RMB455,557,000 (equivalent to approximately HK$560,334,000), which shall be payable in the following manner:

(1) the prior payment of a deposit of RMB33,000,000 (equivalent to approximately HK$40,590,000) by Tianjin Tai Kang to Tianjin Benefo was regarded as first instalment of the consideration for the Tianduan Acquisition as at the date of the Tianduan Agreement; and

(2) the balance of the consideration of RMB422,557,000 (equivalent to approximately HK$519,744,000) shall be paid within 30 business days after completion of the business registration for the transfer of the Tianduan Equity Interest with the relevant PRC government authorities.

The consideration for the Tianduan Acquisition was determined after arm's length negotiations between the Parties by reference to a valuation report prepared by an independent professional valuer, Vigers, in respect of the entire equity interest of Tianduan as at 30 September 2012 with a market value of RMB805,000,000 (equivalent to approximately HK$990,148,000). The net asset value of the Tianduan Group as at 30 June 2012 was approximately RMB569,890,000 (equivalent to approximately HK$700,963,000). The text of the valuation report of Vigers on Tianduan is set out in Appendix VI to this circular.

The consideration will be settled in cash and funded by the internal resources of Tianjin Tai Kang.

Conditions to Completion

Completion of the Tianduan Acquisition shall be conditional upon, amongst others, the completion of the following conditions unless otherwise being waived by written consent of the Parties:

(1) the passing of resolutions by the board of directors of Tianduan to approve the Tianduan Acquisition and the corresponding amendments to the articles of association of Tianduan;

(2) the passing of resolutions by Tianjin Benefo and Tianjin Tai Kang respectively in respect of the Tianduan Acquisition pursuant to the relevant legal requirements and/or their respective articles of association;

(3) approval by Tianjin SASAC (or other regulatory units authorised by Tianjin SASAC) of the Tianduan Acquisition;

(4) approval by Tianjin Commission of Commerce of the Tianduan Acquisition;

(5) the change of registration of Tianduan by the registration authority of industry and commerce in respect of the Tianduan Acquisition;

(6) approval and completion of procedures and formalities by other relevant PRC government authorities in respect of the Tianduan Acquisition; and

(7) the approval by the Shareholders of the Tianduan Acquisition in accordance with the requirements of the Listing Rules.

If the conditions have not been fulfilled or waived by the Parties on or before 31 December 2012, the Tianduan Agreement shall be terminated and the first instalment already paid to Tianjin Benefo shall be refunded to Tianjin Tai Kang.

THE TIANFA EQUIPMENT AGREEMENT

On 1 November 2012, Tianjin Tai Kang also entered into the Tianfa Equipment Agreement with Tianjin Benefo, pursuant to which Tianjin Benefo has conditionally agreed to sell and Tianjin Tai Kang has conditionally agreed to acquire the Tianfa Equipment Equity Interest, representing 66% of the registered capital of Tianfa Equipment subject to the terms and conditions of the Tianfa Equipment Agreement.

Date

1 November 2012

Parties

(1) Vendor : Tianjin Benefo

(2) Purchaser : Tianjin Tai Kang, a non wholly-owned subsidiary of the Company

Information on Tianfa Equipment

Tianfa Equipment is a company incorporated in the PRC with limited liability and has a registered capital of RMB180,597,600, and is jointly-owned as to 66% and 34% by Tianjin Benefo and Tianjin Tai Kang respectively at the date of the Tianfa Equipment Agreement. Tianfa Equipment is principally engaged in the design, manufacture, sale and provision of consultation services of hydroelectric equipment and large scale pump unit in the PRC. As Tianfa Equipment was jointly established by Tianjin Benefo with certain other parties, there is no original purchase cost of Tianfa Equipment to Tianjin Benefo.

In accordance with the Hong Kong Financial Reporting Standards, the profits (loss) before and after taxation of Tianfa Equipment for the financial years ended 31 December 2011 and 2010 were as follows:

	For the year ended 31 December	
	2011	**2010**
	RMB	***RMB***
Profits (loss) before taxation	23,840,000	(7,139,000)
Profits (loss) after taxation	21,999,000	(4,837,000)

Upon completion of the Tianfa Equipment Acquisition, Tianfa Equipment shall become a 100%-owned subsidiary of Tianjin Tai Kang.

Consideration and Payment Terms

The consideration for the Tianfa Equipment Acquisition is RMB301,984,000 (equivalent to approximately HK$371,439,000), which shall be payable within 30 business days after completion of the business registration for the transfer of the Tianfa Equipment Equity Interest with the relevant PRC government authorities.

The consideration for the Tianfa Equipment Acquisition was determined after arm's length negotiations between the Parties by reference to a valuation report prepared by an independent professional valuer, Vigers, in respect of the entire equity interest of Tianfa Equipment as at 30 September 2012 with a market value of RMB484,000,000 (equivalent to approximately HK$595,319,000). The net asset value of Tianfa Equipment as at 30 June 2012 was approximately RMB406,337,000 (equivalent to approximately HK$499,793,000). The text of the valuation report of Vigers on Tianfa Equipment is set out in Appendix VII to this circular.

The consideration will be settled in cash and funded by the internal resources of Tianjin Tai Kang.

Conditions to Completion

Completion of the Tianfa Equipment Acquisition shall be conditional upon, amongst others, the completion of the following conditions unless otherwise being waived by written consent of the Parties:

(1) the passing of resolutions by the board of directors of Tianfa Equipment to approve the Tianfa Equipment Acquisition and the corresponding amendments to the articles of association of Tianfa Equipment;

(2) the passing of resolutions by Tianjin Benefo and Tianjin Tai Kang respectively in respect of the Tianfa Equipment Acquisition pursuant to the relevant legal requirements and/or their respective articles of association;

(3) approval by Tianjin SASAC (or other regulatory units authorised by Tianjin SASAC) of the Tianfa Equipment Acquisition;

(4) approval by Tianjin Commission of Commerce of the Tianfa Equipment Acquisition;

(5) the change of registration of Tianfa Equipment by the registration authority of industry and commerce in respect of the Tianfa Equipment Acquisition;

(6) approval and completion of procedures and formalities by other relevant PRC government authorities in respect of the Tianfa Equipment Acquisition; and

(7) the approval by the Shareholders of the Tianfa Equipment Acquisition in accordance with the requirements of the Listing Rules.

If the conditions have not been fulfilled or waived by the Parties on or before 31 December 2012, the Tianfa Equipment Agreement shall be terminated.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Board considers that the Acquisitions are a step forward in expanding its presence in the electrical and mechanical sector. Upon completion of the Acquisitions, the Group will take a controlling stake in Tianduan and Tianfa Equipment through its holding of 82.74% equity interest in Tianjin Tai Kang, which will allow the Company to exercise control over the management and operations of Tianduan and Tianfa Equipment.

Moreover, the Group intends to expedite business restructuring and explore new businesses. Given Tianduan and Tianfa Equipment are key players in the hydraulic presses and hydroelectric equipment industries in the PRC respectively, the Acquisitions complement the Group's future development and will be a key step in developing the electric and mechanical segment of the Group.

As Tianduan and Tianfa Equipment both have a good business foundation and great development potential, the Board believes that the Acquisitions will further reinforce the Group's revenue base and accordingly strengthen the Company's competitiveness.

The Directors (including the independent non-executive Directors) consider that the Acquisitions are on normal commercial terms and the Agreements are entered into in the ordinary and usual course of business and terms thereof are fair and reasonable and are in the best interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITIONS

Upon completion of the Acquisitions, Tianjin Tai Kang will hold 78.45% of the registered capital of Tianduan and 100% equity interest of Tianfa Equipment. As Tianjin Tai Kang is a non wholly-owned subsidiary of the Company, the assets and liabilities of the Target Companies will be consolidated into the consolidated financial statements of the Group by applying the acquisition method.

The financial effects of the Acquisitions on earnings, assets and liabilities of the Group are set out below as if the Acquisitions had been completed on 30 June 2012:

Assets and Liabilities

As at 30 June 2012	**The Group (Immediately Before Completion)** *HK$'000*	**The Enlarged Group (Immediately After Completion)** *HK$'000*
Total assets	14,675,079	16,375,428
Total liabilities	4,299,362	5,771,782
Net assets	10,375,717	10,603,645

The unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV to this circular.

Earnings

After completion of the Acquisitions, the financial results of the Target Companies will be consolidated into the consolidated financial statements of the Group. It is expected that the revenue and earnings of the Target Companies will be contributed to the performance of the Enlarged Group.

Upon completion of the Acquisitions, the gearing ratio of the Enlarged Group as measured by total bank borrowings to shareholder's funds is expected to be maintained at similar level of the Group prior to the Acquisitions.

Goodwill is expected to arise from the Acquisitions due to the differences between the consideration of the Acquisitions and the fair values of the identifiable assets and liabilities of the Target Companies. The amount of goodwill to be recognized will be subject to the fair values of the identifiable assets and liabilities of the Target Companies at completion of the Acquisitions.

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) hotel; and (iii) strategic and other investments including investments in the production, sale and distribution of winery products, elevators and escalators and provision of port services in Tianjin.

The principal activities of Tianjin Benefo are manufacturing mechanic and electrical appliances, heavy duty plants and machineries, high-end machine tools and providing related services.

LISTING RULES IMPLICATIONS

Reference is made to the Company's announcement dated 1 November 2012 in relation to the Acquisitions, the Company's announcement dated 11 October 2011 and its circular dated 11 November 2011 in respect of the Previous Acquisition of 21.83% equity interest in Tianduan. Given that the Agreements were entered into within 12 months after the completion of the Previous Acquisition which was entered into by Tianjin Tai Kang with, among other, Tianjin Benefo, the Acquisitions are aggregated with the Previous Acquisition pursuant to Rule 14.22 and Rule 14A.25 of the Listing Rules.

As one of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules for the Acquisitions exceeds 25% but is less than 100%, the Acquisitions constitute major transactions of the Company under Chapter 14 of the Listing Rules. In addition, the Acquisitions, when aggregated with the Previous Acquisition, remain classified as major transactions of the Company under the Listing Rules. Tianjin Benefo is currently holding 17.26% equity interest in Tianjin Tai Kang and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisitions also constitute connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Under Rule 14A.43 of the Listing Rules, independent Shareholders' approval for the Acquisitions may be obtained by written independent Shareholders' approval in lieu of convening a general meeting if (i) no independent Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions; and (ii) written approval has been obtained from one or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company having the right to attend and vote at general meetings.

Independent Shareholders' approval

Tsinlien, a substantial Independent Shareholder directly and indirectly holding 625,071,143 shares of the Company (representing approximately 58.56% of the issued share capital of the Company) as at the Latest Practicable Date, has given its written approval for the Acquisitions pursuant to Rule 14A.43 of the Listing Rules. Since none of the Shareholders is materially interested in the Acquisitions, therefore no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions. The Company applied for and has been granted by the Stock Exchange a waiver pursuant to Rule 14A.43 of the Listing Rules that Independent Shareholders' approval for the Acquisitions may be obtained by means of written approval from Tsinlien in lieu of holding a general meeting.

As no Director has a material interest in the Acquisitions, none of them were required to abstain from voting on the Board resolutions approving the Acquisitions.

The Board considers that the terms of the Acquisitions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and would recommend the Independent Shareholders to vote in favour of the resolutions approving the Acquisitions, the Agreements and the transactions contemplated thereunder if an extraordinary general meeting of the Company were to be convened.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders on whether the terms of the Agreements are fair and reasonable and in the interests of the Shareholders as a whole. Investec has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisitions, the Agreements and the transactions contemplated thereunder.

Your attention is drawn to (i) the letter from the Independent Board Committee dated 22 November 2012 set out on page 13 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisitions; and (ii) the letter from Investec dated 22 November 2012 as set out on pages 14 to 28 of this circular which contains the recommendation from Investec to the Independent Board Committee and the Independent Shareholders in relation to the Acquisitions and the principal factors and reasons considered by Investec in arriving at its recommendation.

Having taken into account the factors and reasons considered by, and the opinion of Investec, the Independent Board Committee considers that the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Agreements are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

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

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

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

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

(Stock Code: 882)

22 November 2012

To the Independent Shareholders

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTIONS
ACQUISITION OF
(1) 56.62% EQUITY INTEREST IN
TIANJIN TIANDUAN PRESS CO., LTD.
AND
(2) 66% EQUITY INTEREST IN
TIANJIN TIANFA HEAVY MACHINERY &
HYDRO POWER EQUIPMENT MANUFACTURE CO., LTD.**

We refer to the circular of the Company to the Shareholders dated 22 November 2012 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as given to them in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Acquisitions are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 12 of the Circular and the letter from Investec, Independent Financial Advisor, as set out on pages 14 to 28 of the Circular.

Having taken into account the factors and reasons considered by, and the opinion of Investec, we consider that the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and that the transactions contemplated under the Agreements are in the interests of the Company and the Shareholders as a whole. We would recommend the Independent Shareholders to vote in favour of the resolutions approving the Acquisitions, the Agreements and the transactions contemplated thereunder if the Company were to convene a general meeting to seek the approval of the Acquisitions.

Yours faithfully,
The Independent Board Committee
Tianjin Development Holdings Limited
Dr. Cheng Hon Kwan **Mr. Mak Kwai Wing, Alexander** **Ms. Ng Yi Kum, Estella**
Independent Non-executive Directors

The following is the text of the letter of advice from Investec to the Independent Board Committee and the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder prepared for the purpose of incorporation in this circular.

Investec

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22 November 2012

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS
ACQUISITION OF
(1) 56.62% EQUITY INTEREST IN
TIANJIN TIANDUAN PRESS CO., LTD.
AND
(2) 66% EQUITY INTEREST IN
TIANJIN TIANFA HEAVY MACHINERY &
HYDRO POWER EQUIPMENT MANUFACTURE CO., LTD.

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular to the Shareholders dated 22 November 2012 (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in the Circular.

On 1 November 2012, Tianjin Tai Kang, a non wholly-owned subsidiary of the Company, entered into the Agreements with Tianjin Benefo in relation to the acquisition of (i) 56.62% equity interest in Tianduan at a consideration of RMB455,557,000 (equivalent to approximately HK$560,334,000); and (ii) 66% equity interest in Tianfa Equipment at a consideration of RMB301,984,000 (equivalent to approximately HK$371,439,000).

* *for identification purposes only*

As one of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules exceeds 25% but is less than 100%, the Acquisitions constitute major transactions for the Company under Chapter 14 of the Listing Rules. In addition, the Acquisitions, when aggregated with the Previous Acquisition, remain classified as major transactions of the Company under the Listing Rules. Tianjin Benefo is currently holding 17.26% equity interest in Tianjin Tai Kang and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisitions also constitute connected transactions for the Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Tsinlien, a substantial independent Shareholder directly and indirectly holding 625,071,143 Shares (representing approximately 58.56% of the entire issued share capital of the Company), has given its written approval for the Acquisitions pursuant to Rule 14A.43 of the Listing Rules. Since none of the Shareholders is materially interested in the Acquisitions, therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions, the Company has been granted by the Stock Exchange a waiver pursuant to Rule 14A.43 of the Listing Rules that written Independent Shareholders' approval for the Acquisitions may be obtained by means of written approval from Tsinlien in lieu of holding a general meeting.

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of 12 Directors, namely Mr. Yu Rumin, Mr. Wu Xuemin, Mr. Dai Yan, Mr. Bai Zhisheng, Mr. Zhang Wenli, Mr. Wang Zhiyong and Dr. Wang Weidong as executive Directors; Mr. Cheung Wing Yui, Edward and Dr. Chan Ching Har, Eliza as non-executive Directors; and Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander and Ms. Ng Yi Kum, Estella as independent non-executive Directors.

The Independent Board Committee comprising all independent non-executive Directors, namely, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander and Ms. Ng Yi Kum, Estella, has been formed to advise the Independent Shareholders as to (i) whether the terms of the Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Acquisitions and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Agreements for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders.

Apart from the normal advisory fee payable to us in connection with our appointment, with the approval of the Independent Board Committee, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Group contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Group and/or its senior management staff 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 reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its senior management staff 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 an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Agreements, we have taken into consideration the following principal factors:

1. Background information

(i) 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, heat and thermal power; (ii) hotels; and (iii) strategic and other investments including investments in associates which are principally engaged in the production, sale and distribution of winery products, elevators and escalators and provision of port services.

Set out below is a summary of financial highlights of the Group for the two financial years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, as extracted from the annual report of the Company for the financial year ended 31 December 2011 (the "Annual Report 2011") and the interim report of the Company for the six months ended 30 June 2012 (the "Interim Report 2012").

Table A: Financial highlights of the Group

	For the six months ended 30 June	For the year ended 31 December	
	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Revenue	1,918,506	3,517,032	3,223,034
Cost of sales	(1,779,445)	(3,242,249)	(2,972,789)
Gross Profit	139,061	274,783	250,245
Share of profits of associates and jointly controlled entities	265,423	602,363	531,643
Profit for the year/period	226,792	507,523	451,490

For the year ended 31 December 2011, the revenue of the Group was approximately HK$3,517.0 million, representing an increase of approximately 9.1% over the previous year. The increase in revenue was driven by the growth in quantity of electricity and steam sold by the Group's utility operations. After taking into account the share of profits of associates and jointly controlled entities, the Group's profit for the year was approximately HK$507.5 million (2010: approximately HK$451.5 million).

For the six months ended 30 June 2012, revenue of the Group was approximately HK$1,918.5 million, representing an increase of approximately 12.6% over that of same period in 2011. The Company benefited from an increase in the demand for its supplies of utilities, in particular, the electricity and water operations. Profit of the Group for the six months ended 30 June 2012 was approximately HK$226.8 million, representing a decrease of approximately 11.9% compared to the same period in 2011. The decrease was attributable to the decrease in share of profits from associates engaged in the elevators and escalators and winery businesses.

As stated in the Annual Report 2011, the Company will continue to expedite business restructuring and explore new businesses. The management of the Company has identified the Acquisitions as being suitable for the Company to strengthen its electrical and mechanical business which offers promising prospects.

(ii) Information of Tianduan and Tianfa Equipment

Tianduan

Tianduan is principally engaged in the manufacture and sale of presses and mechanical equipment, repair, installation, research and provision of consultation services of presses and wholesale and retail of accessories of presses. Tianjin Benefo, Tianjin Tai Kang, a non wholly-owned subsidiary of the Company, and Mr. Wu Ri are interested in 56.62%, 21.83% and 21.55% of the equity interest of Tianduan, respectively.

Summarised below is the financial information of Tianduan for the two financial years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the six months ended 30 June	**For the year ended 31 December**	
	2012	**2011**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Revenue	340,912	793,286	821,145
Cost of sales	(279,405)	(632,340)	(670,728)
Gross Profit	61,507	160,946	150,417
Profit for the year/period	21,038	56,398	25,686
Net asset value	569,890	548,852	103,439

Revenue of Tianduan for the year ended 31 December 2011 decreased by approximately 3.4% to approximately RMB793.3 million, while gross profit increased by approximately 7.0% to approximately RMB160.9 million for the year ended 31 December 2011. Profit for the year ended 31 December 2011 increased by approximately 119.6% to approximately RMB56.4 million, which was mainly due to improvement in gross profit margins.

For the six months ended 30 June 2012, the revenue of Tianduan amounted to approximately RMB340.9 million, which represented a decrease of approximately 18.7% from the same period in the previous year. Tianduan recorded a profit of approximately RMB21.0 million for the six months ended 30 June 2012, which represented a decrease of approximately 44.5% compared to the same period of last year. The management of the Company understands that such decrease was mainly attributable to the low orders for Tianduan's products during the first six months of 2012 but orders have recovered after June 2012. Based on the information provided by the Company and our discussion with the management of the Company, we note that the aggregate amount of orders for Tianduan's products in the third quarter of 2012 exceeded those of both the first and second quarter in 2012, respectively.

Tianfa Equipment

Tianfa Equipment is principally engaged in the design, manufacture, sale and provision of consultation services of hydroelectric equipment and large scale pump unit in the PRC. Tianjin Benefo and Tianjin Tai Kang, a non wholly-owned subsidiary of the Company, are interested in 66% and 34% of the equity interest of Tianfa Equipment, respectively.

Summarised below is the financial information of Tianfa Equipment for the two financial years ended 31 December 2010 and 2011 and the six months ended 30 June 2012, prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the six months ended 30 June	**For the year ended 31 December**	
	2012	**2011**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Revenue	281,370	487,300	471,310
Cost of sales	(215,558)	(369,065)	(388,611)
Gross Profit	65,812	118,235	82,699
Profit (loss) for the year/period	18,976	21,999	(4,837)
Net asset value	406,337	387,361	368,921

Revenue of Tianfa Equipment for the year ended 31 December 2011 increased by approximately 3.4% to approximately RMB487.3 million. Profit for the year ended 31 December 2012 increased to approximately RMB22.0 million from a loss of approximately RMB4.8 million for the previous year. The improvement in operating performance of Tianfa Equipment was mainly attributable to the continuing improvement in gross profit margins.

For the six months ended 30 June 2012, the revenue of Tianfa Equipment amounted to approximately RMB281.4 million, which represented an increase of approximately 22.9% from the same period in the previous year. Tianfa Equipment recorded a profit of approximately RMB19.0 million for the six months ended 30 June 2012, which represented an increase of approximately 263.9% compared to the same period of last year, which was mainly attributable to the increase in revenue during the said period.

(iii) Reasons for the Acquisitions

As stated in the Letter from the Board, the Acquisitions represent a step forward in expanding the presence of the Group in the electrical and mechanical sector. The Group will take a controlling stake in Tianduan and Tianfa Equipment through its holding of 82.74% equity interest in Tianjin Tai Kang upon the completion of the Acquisitions, which will allow the Company to exercise control over the management and operations of Tianduan and Tianfa Equipment.

The Group also intends to expedite business restructuring and explore new businesses. Given Tianduan and Tianfa Equipment are key players in the hydraulic presses and hydroelectric industries in the PRC respectively, the Acquisitions complement the future development of the Group and would be a key step in developing the electric and mechanical segment of the Group.

(iv) Fixed asset and industrial investment and hydroelectric capacities in the PRC

According to the report titled "Statistical Communique on the 2011 National Economic and Social Development" by the National Bureau of Statistics of the PRC, the fixed asset investment in the PRC has grown by approximately 23.8% to approximately RMB31.1 trillion in 2011. Based on the report titled "Investment in Fixed Assets (Excluding Rural Households) (2012.01–08)", in the first eight months of 2012, fixed asset investment in the PRC, excluding rural households, amounted to approximately RMB21.8 trillion, representing a growth of approximately 25.6% over the same period in 2011. Both of the above-mentioned reports are available on www.stats.gov.cn.

Based on the report titled "2011年工業投資情況" (Industrial Investment in 2011*) by the Ministry of Industry and Information Technology of the PRC, industrial fixed asset investment in the PRC amounted to approximately RMB12.9 trillion in 2011, representing a growth of approximately 26.9% over 2010. Based on the report titled "1–8月工業投資增速回落" (Moderation in growth rate of industrial investment in January to August*), in the first eight months of 2012, industrial fixed asset investment was approximately RMB9.5 trillion, representing a growth of approximately 23.0% over the same period in 2011, which was slightly below the growth rate for the first seven months of 2012. Both of the above-mentioned reports are available on www.miit.gov.cn.

As Tianduan is engaged in the manufacture and sale of hydraulic presses and related operations, which are used in various industrial sectors, the management of the Company believes that the continued growth in fixed asset investment would provide a growing market for Tianduan's products.

Moreover, as set out in the twelfth five-year plan* (十二五規劃), the PRC Government has designated the development of renewable energies, including hydroelectric capacities in the PRC, as a key policy initiative during 2011–2015. The management of the Company believes that such policy offers a favourable operating environment for Tianfa Equipment as the development of hydroelectric capacities in the PRC might create additional demand for the products of Tianfa Equipment.

2. The Agreements

2.1 Principal terms of the Tianduan Agreement

Pursuant to the Tianduan Agreement, Tianjin Benefo has conditionally agreed to sell and Tianjin Tai Kang has conditionally agreed to acquire the Tianduan Equity Interest, representing 56.62% of the registered capital of Tianduan subject to the terms and conditions of the Tianduan Agreement.

Date

1 November 2012

Parties

(1) Vendor: Tianjin Benefo

(2) Purchaser: Tianjin Tai Kang, a non wholly-owned subsidiary of the Company

Consideration and payment terms

The consideration for the Tianduan Acquisition is RMB455,557,000 (equivalent to approximately HK$560,334,000), which shall be payable in the following manner:

(1) the prior payment of a deposit of RMB33,000,000 (equivalent to approximately HK$40,590,000) by Tianjin Tai Kang to Tianjin Benefo was regarded as first installment of the consideration for the Tianduan Acquisition as at the date of the Tianduan Agreement;

(2) the balance of the consideration of RMB422,557,000 (equivalent to approximately HK$519,744,000) shall be paid within 30 business days after completion of the business registration for the transfer of the Tianduan Equity Interest with the relevant PRC government authorities.

The consideration for the Tianduan Acquisition was determined after arm's length negotiations between the Parties by reference to a valuation report prepared by the Valuer, in respect of the entire equity interest of Tianduan as at 30 September 2012 with a market value of RMB805,000,000 (equivalent to approximately HK$990,148,000).

The deposit of RMB33,000,000 (equivalent to approximately HK$40,590,000) shall be refunded to Tianjin Tai Kang if the conditions to the completion of the Tianduan Acquisition are not fulfilled or waived by the Parties on or before 31 December 2012.

The consideration will be settled in cash and funded by the internal resources of Tianjin Tai Kang.

2.2 Principal terms of the Tianfa Equipment Agreement

Pursuant to the Tianfa Equipment Agreement, Tianjin Benefo has conditionally agreed to sell and Tianjin Tai Kang has conditionally agreed to acquire the Tianfa Equipment Equity Interest, representing 66% of the registered capital of Tianfa Equipment subject to the terms and conditions of the Tianfa Equipment Agreement.

Date

1 November 2012

Parties

(1) Vendor: Tianjin Benefo

(2) Purchaser: Tianjin Tai Kang, a non wholly-owned subsidiary of the Company

Consideration and payment terms

The consideration for the Tianfa Equipment Acquisition is RMB301,984,000 (equivalent to approximately HK$371,439,000), which shall be payable within 30 business days after completion of the business registration for the transfer of the Tianfa Equipment Interest with the relevant PRC government authorities.

The consideration for the Tianfa Equipment Acquisition was determined after arm's length negotiations between the Parties by reference to a valuation report prepared by the Valuer, in respect of the entire equity interest of Tianfa Equipment as at 30 September 2012 with a market value of RMB484,000,000 (equivalent to approximately HK$595,319,000).

The consideration will be settled in cash and funded by the internal resources of Tianjin Tai Kang.

2.3 Evaluation of the consideration for the Acquisitions

For the purpose of assessing the fairness and reasonableness of the consideration for the Acquisitions, the Valuer was appointed to evaluate the market value of the entire equity interest of Tianduan and Tianfa Equipment as at 30 September 2012.

We have reviewed the valuation reports prepared by the Valuer. We have also discussed with the Valuer and understand that the Valuer has considered three different generally accepted valuation methods, namely the market approach, the cost approach and the income approach in arriving at the market value of the entire equity interest in Tianduan and Tianfa Equipment. Based on our discussions with the Valuer, the Valuer considers that it is inappropriate to adopt the income approach and the cost approach for the purpose of valuing the entire equity interest in Tianduan and Tianfa Equipment. Given that the cost approach does not consider the going concern of Tianduan and Tianfa Equipment and the income approach has more reliance on financial estimation, the Valuer considers the market approach as the only appropriate approach for the purpose of valuing the entire equity interest in Tianduan and Tianfa Equipment. Based on our discussions with the Valuer, we consider that the adoption of the market approach to value the entire equity interest in Tianduan and Tianfa Equipment is appropriate.

Based on our discussions with the Valuer, in assessing the market value of the entire equity interest in Tianduan and Tianfa Equipment, we note that the Valuer has identified comparable companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange focusing on the same or similar industries as Tianduan and Tianfa Equipment respectively which report positive earnings. Accordingly, the Valuer has selected three comparables for Tianduan and seven comparables for Tianfa Equipment. Please refer to the valuation reports of Tianduan as set out in Appendix VI and Tianfa Equipment as set out in Appendix VII respectively to the Circular for further details.

By adopting the market approach, the Valuer has selected the enterprise value ("EV") to earnings before interest, taxes, depreciation and amortisation ("EBITDA") multiple ("EV/EBITDA") of the comparables as the appropriate multiple as EBITDA is an accounting metric that represents earning power that can be compared across companies since (i) EBITDA is not affected by the differences in tax rates, capital structure and capital invested; and (ii) EV/EBITDA has been proven to be a reliable ratio for pricing manufacturing companies. Based on our discussions with the Valuer, we understand that the EV/EBITDA is one of the reliable ratios as EV/EBITDA considers an entity's cash flow level as an indicator of a company's value. We also understand from the Valuer that the EV/EBITDA adopted for the valuation of Tianduan and Tianfa Equipment was based on a number of factors, in particular, the EV/EBITDA of the comparables. The Valuer has further adjusted the EV/EBITDA of the comparables to reflect differences in the EBITDA and earnings before interest and tax margins, growth rates, capital structure and the discount for a private company between Tianduan and Tianfa Equipment and the comparables. In addition, the Valuer has applied a marketability discount of 30% to arrive at the market value of the entire equity interest in Tianduan and Tianfa Equipment to reflect the differences in liquidity between Tianduan and Tianfa Equipment, which are private companies, and the comparables, which are public companies. Moreover, as stated in the valuation reports set out in Appendices VI and VII, the Valuer has used the trailing 12 month EBITDA of Tianduan and Tianfa Equipment for the period ended 30 June 2012 for the purpose of evaluating the market value of the entire equity interest of Tianduan and Tianfa Equipment. The Valuer has confirmed that the methodology of EV/EBITDA and the marketability discount are commonly used in the valuation of manufacturing businesses.

As assessed by the Valuer, the market value of 100% equity interest in Tianduan is valued at approximately RMB805.0 million (equivalent to approximately HK$990.1 million) as at 30 September 2012. Accordingly, the market value for 56.62% equity interest in Tianduan under the Tianduan Acquisition, the Tianduan Equity Interest, is approximately RMB455.8 million (equivalent to approximately HK$560.6) million. Accordingly, the consideration for the Tianduan Equity Interest of RMB455,557,000 (equivalent to approximately HK$560,334,000) under the Tianduan Acquisition is slightly below the corresponding market value as assessed by the Valuer.

As assessed by the Valuer, the market value of 100% equity interest in Tianfa Equipment is valued at approximately RMB484.0 million (equivalent to approximately HK$595.3 million) as at 30 September 2012. Accordingly, the market value for 66% equity interest in Tianfa Equipment under the Tianfa Equipment Acquisition, the Tianfa Equipment Equity Interest, is approximately RMB319.4 million (equivalent to approximately HK$392.9 million). The consideration for the Tianfa Equipment Equity Interest of RMB301,984,000 (equivalent to approximately HK$371,439,000) under the Tianfa Equipment Acquisition represents a discount of approximately 5.5% to the corresponding market value as assessed by the Valuer.

To further evaluate the consideration for the Acquisitions, we have also compared the price to earnings multiple ("P/E") and the price to book value multiple ("P/B") of the respective comparables identified by the Valuer focusing on the same or similar industries as Tianduan and Tianfa Equipment as discussed above against the P/E and P/B of the Acquisitions represented by the consideration of the Acquisitions. As far as we are aware of, none of the listed companies on Stock Exchange focus on the same or similar industries as Tianduan and Tianfa Equipment. Moreover, the comparables identified by the Valuer operate in the same markets and industries as Tianduan and Tianfa Equipment. Accordingly, we have used comparables identified by the Valuer in our analysis.

Tianduan Acquisition

	Stock Code	Closing price as at the date of the Tianduan Agreement	Historical earnings per share	Historical book value per share	P/E	P/B
		RMB	*RMB*	*RMB*	*times*	*times*
Qinchuan Machinery Development Company Limited	000837.CH	5.71	0.38	3.34	15.03	1.71
Fujian Haiyuan Automatic Equipments Company Limited	002529.CH	8.38	0.28	6.34	29.93	1.32
Nantong Metalforming Equipment Company Limited	300280.CH	7.70	0.41	4.80	18.78	1.60
Average					21.25	1.55
Maximum					29.93	1.71
Minimum					15.03	1.32
Tianduan Acquisition					14.27 *(Note 1)*	1.47 *(Note 1)*

Note:

(1) the P/E and P/B of the Tianduan Acquisition were calculated based on the consideration of RMB455,557,000 and the proportionate audited net profit after tax and net assets value of the 56.62% equity interest in Tianduan for the year ended 31 December 2011

As shown in the above table, the P/E of the comparables ranges from approximately 15.03 times to approximately 29.93 times and the average P/E is approximately 21.25 times. The P/E of the consideration of the Tianduan Acquisition of approximately 14.27 times is below the minimum P/E of the comparables. The P/B of the comparables ranges from approximately 1.32 times to approximately 1.71 times and the average P/B is approximately 1.55 times. The P/B for the consideration of the Tianduan Acquisition of approximately 1.47 times is below the average of the P/B of the comparables.

Tianfa Equipment Acquisition

	Stock Code	Closing price as at the date of the Tianfa Equipment Agreement	Historical earnings per share	Historical book value per share	P/E	P/B
		RMB	*RMB*	*RMB*	*times*	*times*
Wuxi Huaguang Boiler Company Limited	600475.CH	10.24	0.53	5.67	19.32	1.81
China Western Power Industrial Company Limited	002630.CH	17.17	0.61	9.33	28.15	1.84
Rongxin Power Electronic Company Limited	002123.CH	9.01	0.56	4.19	16.09	2.15
Suzhou Hailu Heavy Industry Company Limited	002255.CH	13.88	0.54	5.29	25.70	2.62
Zhejiang Fuchunjiang Hydropower Equipment Company Limited	002266.CH	6.71	0.30	2.24	22.37	3.00
Titan Wind Energy (Suzhou) Company Limited	002531.CH	14.85	0.51	8.10	29.12	1.83
Jiangsu Dongyuan Electrical Group Company Limited	002074.CH	5.91	0.14	13.63	42.21	0.43
Average					26.14	1.95
Maximum					42.21	3.00
Minimum					16.09	0.43
Tianfa Equipment Acquisition					20.80 *(Note 1)*	1.18 *(Note 1)*

Note:

(1) the P/E and P/B of the Tianfa Equipment Acquisition were calculated based on the consideration of RMB301,984,000 and the proportionate audited net profit after tax and net assets value of the 66% equity interest in Tianfa Equipment for the year ended 31 December 2011

As shown in the above table, the P/E of the comparables ranges from approximately 16.09 times to approximately 42.21 times and the average P/E is approximately 26.14 times. The P/E of the consideration of the Tianfa Equipment Acquisition of approximately 20.80 times is below the average of P/E of the comparables. The P/B of the comparables ranges from approximately 0.43 times to approximately 3.00 times and the average P/B is approximately 1.95 times. The P/B for the consideration of the Tianfa Equipment Acquisition of approximately 1.18 times is below the average of the P/B of the comparables.

Our View

Taking into account the background to, and reasons for, the Agreements, including (i) the Group's intention to expanding its presence in the electrical and mechanical sector; (ii) the consideration for the Tianduan Acquisition is slightly below the corresponding market value as assessed by the Valuer; (iii) the corresponding market value as assessed by the Valuer for the Tianduan Acquisition is based on the trailing 12 month EBITDA for the period 30 June 2012, which reflects the lower operating results of Tianduan for the six months ended 30 June 2012; (iv) the consideration for the Tianfa Equipment Acquisition represents a discount of approximately 5.5% to the corresponding market value as assessed by the Valuer; and (v) the P/E and P/B calculated in respected of the Acquisitions are either below or within the range of the respective comparables, we concur with the view of the Directors that the entering into of the Agreements to be fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

3. Possible financial effects of the Acquisitions to the Group

Upon completion of the Acquisitions, Tianjin Tai Kang would hold 78.45% of the registered capital of in Tianduan and 100% equity interest in Tianfa Equipment and their respective financial results, assets and liabilities would be consolidated into the Group's consolidated financial statements.

(i) Earnings

Based on the audited consolidated financial statements of the Group as at 31 December 2011, the Group recorded an audited profit of approximately HK$507.5 million for the year ended 31 December 2011. Based on the accountants' report on Tianduan and Tianfa Equipment as set out in Appendices II and III respectively, the audited profit for the year ended 31 December 2011 of Tianduan amounted to approximately RMB56.4 million (equivalent to approximately HK$69.4 million) and audited net profit of Tianfa Equipment for the same period amounted to approximately RMB20.0 million (equivalent to approximately HK$24.6 million). The earnings of Tianduan and Tianfa Equipment would be consolidated into the Group's financial statements upon completion of the Acquisitions.

(ii) Assets and liabilities

Based on the unaudited pro forma statement of the Enlarged Group as set out in Appendix IV to the Circular and assuming the completion of the Acquisitions had taken place on 30 June 2012, as a result of the Acquisitions, the total assets would increase by approximately 11.6% to approximately HK$16.4 billion; the total liabilities would increase by approximately 34.2% to approximately HK$5.8 billion; net current assets would decrease by approximately 9.0% to approximately HK$4.0 billion; and the net assets would increase by approximately 2.2% to approximately HK$10.6 billion.

On the basis that, upon completion of the Acquisitions, the consideration for the Acquisitions is satisfied by cash according to the terms set out in the Agreements, the consolidated assets of Tianduan and Tianfa Equipment into the Group's financial statements will be partly offset by the decrease in "cash and cash equivalents" by an amount equivalent to the aggregate consideration of RMB757,541,000 (equivalent to approximately HK$931,773,000). Based on the unaudited cash and cash equivalents of the Group of approximately HK$3,102.7 million as at 30 June 2012, the management of the Company believes that the Group has sufficient internal resources to finance the Acquisitions.

Goodwill is expected to arise from the Acquisitions due to the differences between the consideration of the Acquisitions and the fair values of the identifiable assets and liabilities of Tianduan and Tianfa Equipment. The amount of goodwill to be recognised will be subject to the fair values of the identifiable assets and liabilities of Tianduan and Tianfa Equipment at completion of the Acquisitions.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Acquisitions are in the interests of the Group and the Shareholders as a whole, and are in the ordinary and usual course of business of the Company. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed to approve the Acquisitions and the transactions contemplated thereunder if a physical Shareholders' meeting was to be held.

Yours faithfully
For and on behalf of
Investec Capital Asia Limited
Jimmy Chung
Managing Director, Corporate Finance

FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 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://finance.thestandard.com.hk/en/0882tianjindev/):

(i) annual report of the Company for the year ended 31 December 2009 (pages 53 to 132);

(ii) annual report of the Company for the year ended 31 December 2010 (pages 46 to 126);

(iii) annual report of the Company for the year ended 31 December 2011 (pages 43 to 122); and

(iv) interim report of the Company for the six months ended 30 June 2012 (pages 5 to 27).

STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had the following indebtedness:

	HK$'000
Bank borrowings — secured *(note 1)*	117,360
Bank borrowings — unsecured *(note 2)*	2,554,403
Amounts due to related parties *(note 3)*	32,421
	2,704,184

notes:

1. The whole amount was secured by land and building of the Enlarged Group.

2. Among the balance, HK$12,225,000 was guaranteed by Tianjin Benefo.

3. The amounts were unsecured, interest free and having no fixed repayment term.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 30 September 2012, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchases commitments, liabilities under acceptance (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of this indebtedness statement, foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 September 2012.

WORKING CAPITAL

As at the Latest Practicable Date, taking into account the financial resources presently available to the Enlarged Group including the internally generated funds and the available banking facilities, the Directors are of opinion that the Enlarged Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of publication of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is committed to optimize its business structure and to actively participate in the restructuring of state-owned assets in Tianjin. The global economic and political situation will remain volatile and become more complicated as various uncertainties stemming from the Eurozone debt crisis and slow recovery of the U.S. economy have resulted in weak demand and high unemployment. The economy of China will be inevitably affected. Nonetheless, with the implementation of new incentive measures, it is expected that China's economy will continue to record steady growth in the rest of 2012 and beyond.

As the Group strives to expedite business restructuring and explore new businesses, and Tianduan and Tianfa Equipment are key players in the hydraulic presses and hydroelectric equipment industries in the PRC respectively, the Acquisitions will complement the Enlarged Group's future development. Furthermore, given Tianduan and Tianfa Equipment have a good business foundation and great development potential, the Board believes that the Acquisitions will further strengthen the Enlarged Group's revenue and earnings base and is confident for the future of the Enlarged Group.

The following is the text of a report received from Deloitte Touche Tohmatsu, an independent reporting accountant, prepared for the purpose of incorporation in this circular.

Deloitte.
德勤

22 November 2012

The Directors
Tianjin Development Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Tianjin Tianduan Press Co., Ltd. ("Tianduan") and its subsidiaries (and collectively referred to as the "Tianduan Group") for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 (the "Relevant Period") (the "Financial Information") for inclusion in a circular dated 22 November 2012 issued by Tianjin Development Holdings Limited ("Tianjin Development") in connection with its acquisition of, amongst others, 56.62% equity interest in Tianduan (the "Tianduan Acquisition") (the "Circular").

The Tianduan Acquisition is deemed to be a major and connected transaction under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Tianduan is a limited liability company established in the People's Republic of China (the "PRC") on 10 October 2001 for a period of 50 years. Tianduan is principally engaged in the manufacture and sale of presses and mechanical equipment, repair, installation, research and provision of consultation services of presses and wholesale and retail of accessories of presses.

Details of the subsidiaries directly held by Tianduan during the Relevant Period and as at the date of this report, all of which were established in the PRC in the form of domestic companies, are as follows:

Company name[1]	Date of establishment	Issued and fully paid registered capital *RMB'000*	Attributable equity interest held by Tianduan At 31 December 2009	2010	2011	At 30 June 2012	Date of report	Principal activities
Tianjin Tianduan Ruifung Press Manufacturing Co., Ltd. 天津市天鍛瑞豐壓力機製造有限公司 ("Tianduan Ruifung")	1 November 2002	4,000	100%	100%	100%	100%	100%	Manufacturing of press machines
Tianjin Tiangao Pump Machinery Co., Ltd. 天津市天高液壓件有限公司 ("Tiangao")	27 September 2007	8,000	100%	100%	100%	100%	100%	Manufacturing of pump machines
Tianjin Tianduan Pump Machines Installation Co., Ltd.[2] 天津市天鍛液壓機安裝工程有限公司 ("Tianduan Pump Machines")	8 June 2001	300	100%	N/A	N/A	N/A	N/A	Providing service of press machines installation and repair
Tianjin Tianduan Machinery & Electric Manufacturing Co., Ltd.[3] 天津天鍛機電設備製造有限公司 ("Tianduan Machinery")	15 August 2006	1,970	N/A	N/A	N/A	N/A	N/A	Manufacturing of forging machines

1 All English translated name is for identification only.

2 Deregistered on 1 September 2010.

3 Deregistered on 10 December 2009.

As domestic companies, the statutory financial statements of Tianduan and its subsidiaries for the relevant financial years during the Relevant Period were prepared in accordance with the Accounting System for Business Enterprises issued by the Ministry of Finance of the PRC ("MOF") (企業會計制度) and audited by Tianjian Zhongding Certified Public Accountants Co., Ltd. 天津中鼎會計師事務所有限公司, certified public accountants registered in the PRC, as follows:

Company name	**Financial period**
Tianduan	For each of the three years ended 31 December 2011
Tianduan Ruifung	For each of the three years ended 31 December 2011
Tiangao	For each of the three years ended 31 December 2011
Tianduan Pump Machines	For the year ended 31 December 2009
Tianduan Machinery	Not applicable*

* *Deregistered on 10 December 2009*

For the purpose of this report, the directors of Tianduan have prepared consolidated financial statements of the Tianduan Group for the Relevant Period in accordance with the Accounting Standards for Business Enterprises (企業會計準則, "ASBEs") issued by the MOF (the "Underlying Financial Statements").

The Underlying Financial Statements have been audited by Deloitte Touche Tohmatsu CPA Ltd., certified public accountants registered in the PRC in accordance with China Auditing Standards (中國註冊會計師審計準則) issued by the China Auditing Standards Board.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements after making such adjustments as we consider appropriate for the purpose of preparing our report in accordance with the accounting policies which conform with the Hong Kong Financial Reporting Standards issued by the HKICPA ("HKFRSs") for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Tianduan who approved their issue. The directors of Tianjin Development are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Tianduan and the Tianduan Group as at 31 December 2009, 2010 and 2011 and 30 June 2012 and of the consolidated results and cash flows of the Tianduan Group for the Relevant Period.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Tianduan Group for the six months ended 30 June 2011 together with the notes thereon have been extracted from the Tianduan Group's unaudited consolidated financial information for the same period (the "June 2011 Financial Information") which was prepared by the directors of Tianduan solely for the purpose of this report. We conducted our review on the June 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. Our review of the June 2011 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	**2009**	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	5	572,037	821,145	793,286	419,287	340,912
Cost of sales		(453,577)	(670,728)	(632,340)	(325,479)	(279,405)
Gross profit		118,460	150,417	160,946	93,808	61,507
Other income	6	17,487	24,797	16,082	8,668	8,037
Other gains and losses, net	7	(1,841)	920	506	836	(464)
Selling expenses		(12,950)	(20,796)	(16,702)	(6,423)	(6,729)
Research and development costs		(35,602)	(66,320)	(32,338)	(28,200)	(6,126)
General and administrative expenses		(49,625)	(53,618)	(60,773)	(22,987)	(29,721)
Other operating expenses		(1,925)	(3,333)	(92)	(63)	(1,229)
Finance costs	8	(1,227)	(936)	(839)	(659)	—
Profit before tax		32,777	31,131	66,790	44,980	25,275
Tax expense	9	(2,659)	(5,445)	(10,392)	(7,081)	(4,237)
Profit and total comprehensive income for the year/period	10	30,118	25,686	56,398	37,899	21,038

CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 30 June
	Notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	13	111,412	134,458	256,257	248,613
Land use right	14	—	—	107,769	106,654
Goodwill	15	1,250	1,250	1,250	1,250
Deferred tax assets	17	1,352	4,239	3,458	3,363
		114,014	139,947	368,734	359,880
Current assets					
Inventories	18	42,945	56,903	43,896	74,585
Trade receivables	19	88,408	84,106	89,338	99,572
Notes receivable	19	98,902	222,287	164,621	114,934
Other receivables, deposits and prepayments	19	12,925	34,459	26,929	14,298
Amounts due from customers for contract work	20	137,064	220,383	215,950	250,298
Amounts due from the Tianjin Benefo Group	21	22,709	17,772	11,539	10,587
Entrusted deposit	22	—	—	50,000	—
Restricted bank balances	23	22,929	8,653	35,809	58,924
Cash and cash equivalents	23	96,982	78,590	125,672	164,811
		522,864	723,153	763,754	788,009
Total assets		636,878	863,100	1,132,488	1,147,889
EQUITY					
Registered capital	24	18,830	18,830	50,776	50,776
Reserves	25	58,923	84,609	498,076	519,114
Total equity		77,753	103,439	548,852	569,890

	Notes	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 30 June 2012 RMB'000
LIABILITIES					
Non-current liability					
Deferred income	26	1,163	16,495	15,593	14,941
Current liabilities					
Trade payables	27	233,216	389,973	301,995	321,450
Notes payable	27	—	2,600	58,283	90,221
Other payables and accruals	27	102,764	79,266	94,244	68,380
Amounts due to customers for contract work	20	114,352	119,597	89,686	55,102
Amounts due to the Tianjin Benefo Group	21	62,654	126,389	16,025	18,688
Bank borrowings	28	43,198	19,500	—	—
Current tax liabilities		1,778	5,841	7,810	9,217
		557,962	743,166	568,043	563,058
Total liabilities		559,125	759,661	583,636	577,999
Total equity and liabilities		636,878	863,100	1,132,488	1,147,889
Net current (liabilities) assets		(35,098)	(20,013)	195,711	224,951
Total assets less current liabilities		78,916	119,934	564,445	584,831

BALANCE SHEETS

		As at 31 December			As at 30 June
	Notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	13	104,444	127,030	249,825	242,640
Land use right	14	—	—	107,769	106,654
Investments in subsidiaries	16	13,550	13,250	13,250	13,250
Deferred tax assets	17	1,352	4,239	3,458	3,363
		119,346	144,519	374,302	365,907
Current assets					
Inventories	18	29,917	39,926	21,029	47,988
Trade receivables	19	86,486	82,817	88,182	97,892
Notes receivable	19	94,617	218,690	160,879	114,834
Other receivables, deposits and prepayments	19	11,740	20,709	25,695	13,318
Amounts due from customers for contract work	20	137,064	220,383	215,950	250,298
Amounts due from the Tianjin Benefo Group	21	22,222	17,339	11,106	10,154
Entrusted deposit	22	—	—	50,000	—
Restricted bank balances	23	22,929	8,653	35,809	58,924
Cash and cash equivalents	23	87,985	75,339	120,359	163,208
		492,960	683,856	729,009	756,616
Total assets		612,306	828,375	1,103,311	1,122,523
EQUITY					
Registered capital	24	18,830	18,830	50,776	50,776
Reserves	25	51,974	78,120	489,090	510,612
Total equity		70,804	96,950	539,866	561,388

		As at 31 December			As at 30 June
	Notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liability					
Deferred income	26	1,163	16,495	15,593	14,941
Current liabilities					
Trade payables	27	218,811	375,409	281,344	303,581
Notes payable	27	—	2,600	58,283	90,221
Other payables and accruals	27	97,105	58,879	93,154	67,248
Amounts due to customers for contract work	20	114,352	119,597	89,686	55,102
Amounts due to the Tianjin Benefo Group	21	62,083	126,389	16,025	18,688
Amounts due to subsidiaries	21	4,404	6,987	1,550	2,137
Bank borrowings	28	43,198	19,500	—	—
Current tax liabilities		386	5,569	7,810	9,217
		540,339	714,930	547,852	546,194
Total liabilities		541,502	731,425	563,445	561,135
Total equity and liabilities		612,306	828,375	1,103,311	1,122,523
Net current (liabilities) assets		(47,379)	(31,074)	181,157	210,422
Total assets less current liabilities		71,967	113,445	555,459	576,329

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Owners of Tianduan					
	Registered capital	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	18,830	2,110	26,695	47,635	1,030	48,665
Profit and total comprehensive income for the year	—	—	30,118	30,118	—	30,118
Release of non-controlling interest upon dissolution of a subsidiary *(Note 33)*	—	—	—	—	(1,030)	(1,030)
Transfer between reserves	—	2,525	(2,525)	—	—	—
At 31 December 2009	18,830	4,635	54,288	77,753	—	77,753
Profit and total comprehensive income for the year	—	—	25,686	25,686	—	25,686
Transfer between reserves	—	2,615	(2,615)	—	—	—
At 31 December 2010	18,830	7,250	77,359	103,439	—	103,439
Profit and total comprehensive income for the year	—	—	56,398	56,398	—	56,398
Capital contributions *(Note 24)*	31,946	357,069	—	389,015	—	389,015
Transfer between reserves	—	5,390	(5,390)	—	—	—
At 31 December 2011	50,776	369,709	128,367	548,852	—	548,852
Profit and total comprehensive income for the period	—	—	21,038	21,038	—	21,038
At 30 June 2012	50,776	369,709	149,405	569,890	—	569,890
At 1 January 2011 (audited)	18,830	7,250	77,359	103,439	—	103,439
Profit and total comprehensive income for the period	—	—	37,899	37,899	—	37,899
At 30 June 2011 (unaudited)	18,830	7,250	115,258	141,338	—	141,338

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2011	2012
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flow from (used in) operating activities						
Cash generated from (used in) operations	30	114,867	(53,358)	106,150	50,912	14,579
Interest paid		(1,227)	(1,619)	(839)	(659)	—
PRC income tax paid		(386)	(4,269)	(7,642)	(3,115)	(2,735)
Net cash from (used in) operating activities		113,254	(59,246)	97,669	47,138	11,844
Cash flow (used in) from investing activities						
Interest received		4,285	5,252	6,852	3,957	4,670
Purchase of property, plant and equipment		(92,347)	(31,361)	(71,550)	(51,767)	(4,260)
Purchase of land use right		—	—	(3,339)	—	—
Proceeds from disposal of property, plant and equipment		1,270	385	273	988	—
Increase in deferred income		—	16,000	—	—	—
(Placement) release of restricted bank balances		(13,346)	14,276	(27,156)	(9,841)	(23,115)
(Placement) release of entrusted deposit		—	—	(50,000)	—	50,000
Net cash (used in) from investing activities		(100,138)	4,552	(144,920)	(56,663)	27,295

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flow from (used in) financing activities					
Drawdown of bank borrowings	43,198	89,500	13,000	13,000	—
Repayment of bank borrowings	(14,800)	(113,198)	(32,500)	(19,500)	—
Advance from (repayment to) the Tianjin Benefo Group	—	60,000	(105,000)	—	—
Capital injection by owners of Tianduan	—	—	218,833	—	—
Net cash from (used in) financing activities	28,398	36,302	94,333	(6,500)	—
Net increase (decrease) in cash and cash equivalents	41,514	(18,392)	47,082	(16,025)	39,139
Cash and cash equivalents at beginning of the year/period	55,468	96,982	78,590	78,590	125,672
Cash and cash equivalents at end of the year/period, represented cash and cash equivalents	96,982	78,590	125,672	62,565	164,811

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The registered office of Tianduan is located at Jinwei Highway, Xiaodian Town, Beichen District, Tianjin, the PRC.

During the Relevant Period and at the date of this report, the registered capital of Tianduan is held as follows:

		Percentage held %			
		As at 31 December			As at 30 June
Name of equity owner	*notes*	**2009**	**2010**	**2011**	**2012**
Tianjin Benefo	(i)	78.45	78.45	56.62	56.62
Tianjin Tai Kang	(ii)	—	—	21.83	21.83
Mr. Wu Ri	(iii)	21.55	21.55	21.55	21.55
		100.00	100.00	100.00	100.00

notes:

(i) Tianjin Benefo Machinery & Electric Holding Co., Ltd. 天津百利機電控股集團有限公司 ("Tianjin Benefo") is a company established in the PRC and controlled by Tianjin Municipal Government. Tianjin Benefo together with its subsidiaries other than the Tianduan Group is hereafter collectively referred to as the Tianjin Benefo Group.

(ii) Tianjin Tai Kang Industrial Co., Ltd. 天津泰康實業有限公司 ("Tianjin Tai Kang") is a 82.74% owned subsidiary of Tianjin Development.

(iii) Mr. Wu Ri is also a director of Tianduan.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Information are set out below.

The Financial Information has been prepared in accordance with accounting policies set out below which conform with HKFRSs issued by the HKICPA and are prepared under the historical cost convention.

The preparation of the Financial Information requires the use of certain critical accounting estimates. It also requires management to exercise the judgment in the process of applying the Tianduan Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

Application of HKFRSs

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations (hereinafter collectively referred to as the "new HKFRSs") which are effective for the Tianduan Group's accounting period beginning on 1 January 2012. For the purposes of preparing and presenting the Financial Information of the Relevant Period, the Tianduan Group has adopted all these new HKFRSs consistently throughout the Relevant Period.

At the date of this report, the following new and revised standards, amendments and interpretation have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2015.

3 Effective for annual periods beginning on or after 1 July 2012.

4 Effective for annual periods beginning on or after 1 January 2014.

The Tianduan Group has not early adopted these new and revised standards, amendments or interpretation in the preparation of the Financial Information.

The directors of Tianduan anticipate that the application of these new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Tianduan Group.

Significant accounting policies

The principal accounting policies are set out below.

(a) Group accounting

The Financial Information include the financial statements of Tianduan and all its subsidiaries.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Tianduan Group in the preparation of the Financial Information.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Tianduan Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Tianduan Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Tianduan Group. They are de-consolidated from the date that control ceases.

When the Tianduan Group losses control of a subsidiary, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Tianduan Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Tianduan Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Investments in subsidiaries are carried on the balance sheet of Tianduan at cost together with advances by Tianduan which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than Tianduan's respective cost of investment. The results of subsidiaries are accounted for by Tianduan on the basis of dividend income.

(ii) Non-controlling interests

Non-controlling interests in subsidiaries are presented separately from the Tianduan Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the owners of Tianduan and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(iii) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill is allocated to each of the cash generating units that is expected to benefit from the synergies of the combination.

A cash generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(b) Segment reporting

It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as the board of directors that makes strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Tianduan Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi, which is the same as the functional currency of Tianduan.

(ii) Transactions and balances

Foreign currency transactions are recorded in the functional currency of the relevant entities using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transaction, from the retranslation of non-monetary items denominated in foreign currencies at the rates prevailing on the date when fair value was determined, and from the retranslation at year-end/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

(d) Property, plant and equipment

Buildings comprise mainly factory and office premises. All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Tianduan Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance expenses are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

No depreciation is provided for construction in progress until construction is completed and ready for intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the consolidated statement of comprehensive income.

(e) Land use right

When a lease includes both land and building elements, the Tianduan Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Tianduan Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use right" in the balance sheets and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(f) Impairment of non-financial assets

Assets that do not have an indefinite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e. CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date and reverse to profit or loss.

(g) Financial assets

The Tianduan Group's and Tianduan's financial assets are classified as loans and receivables.

Regular purchases and sales of financial assets are recognized on trade date when the Tianduan Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Tianduan Group has transferred substantially all risks and rewards of ownership.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with expected or actual maturities greater than twelve months after the balance sheet date which are classified as non-current assets.

Loans and receivable are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, loans and receivables (including trade and other receivables, notes receivable, amounts due from subsidiaries, amounts due from the Tianjin Benefo Group, entrusted deposit, restricted bank balances and cash and cash equivalents) are carried at amortized cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or a financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income or expenses is recognized on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Tianduan Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset carried at amortized cost is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises materials, direct labour and an appropriate portion of production overheads calculated on a weighted average basis. Net realizable value is determined on the basis of anticipated sales proceed less estimated cost to completion and selling expenses.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(j) Registered capital

Registered capital is classified as equity. Equity instruments issued by Tianduan are recorded at the proceeds received, net of direct issue costs.

(k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Tianduan Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(l) Trade payables, notes payable, other payables and amounts due to the Tianjin Benefo Group/ subsidiaries

These amounts are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Tianduan Group and Tianduan derecognize financial liabilities when, and only when, the Tianduan Group's and Tianduan's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(m) Current and deferred income tax

The tax expense for the year/period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where Tianduan and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from goodwill or from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Tianduan Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Employee benefits

Employees of the Tianduan Group in the PRC are members of state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Tianduan Group's obligation is to make the required contributions under the scheme. The scheme is defined contribution plan. All these contributions are based on a certain percentage of the staff's salary and are charged to the consolidated statement of comprehensive income as incurred.

(o) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Tianduan Group's activities. Revenue is shown net of value-added tax, business tax, returns and discounts. Revenue and other income is recognized as follows:

(i) Sales of machines and spare parts are recognized when goods are delivered to customers.

(ii) Revenue from machine construction contracts is recognized as the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date bear to estimated total costs.

(iii) Interest income is accrued on a time-proportion basis using the effective interest method.

(p) Machine construction contracts

Where the outcome of a machine construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a machine construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheets, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheets under trade receivables.

(q) Government grants

Government grants are not recognized until there is reasonable assurance that the Tianduan Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Tianduan Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred income in the balance sheets and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Tianduan Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(r) Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(t) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(u) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Tianduan Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Tianduan Group's and Tianduan's activities expose them to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit and counterparty risk and liquidity risk. The Tianduan Group's and Tianduan's financial risk management focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on their financial performance by actively managing debt level and cash flow in order to maintain a strong balance sheet and to minimize refinancing and liquidity risks by attaining healthy debt repayment capacity, appropriate maturity profile and availability of banking facilities. The Tianduan Group and Tianduan adhere to a policy of financial prudence and did not use any derivative financial instruments or structured financial products during the Relevant Period.

(a) Market risk

(i) Foreign exchange risk

The Tianduan Group and Tianduan have foreign currency sales, which expose the Tianduan Group and Tianduan to foreign currency risk.

The actual foreign exchange risk faced by the Tianduan Group and Tianduan therefore primarily with respect to its bank balances and trade receivables which are denominated in currencies (mainly United States dollars "US$") other than the functional currency of the relevant group entities (collectively "Non-Functional Currency Items").

At 31 December 2009, 2010 and 2011 and 30 June 2012, with all other variables held constant, if US$ had strengthened/weakened against Renminbi by 5%, the Tianduan Group's and Tianduan's profit for the year of 2009, 2010 and 2011 and the period of 30 June 2012 would have been favourably/unfavourably impacted by approximately RMB15,000, RMB25,000, RMB178,000 and RMB26,000 respectively as a result of the translation of those Non-Functional Currency Items.

(ii) Interest rate risk

Other than the entrusted deposit and bank balances and deposits specified in Notes 22 and 23 respectively (the "Interest Bearing Assets"), the Tianduan Group and Tianduan have no other significant Interest Bearing Assets.

The Tianduan Group and Tianduan are exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances and deposits.

The Tianduan Group's and Tianduan's entrusted deposit carries a fixed rate and therefore exposes it to fair value interest rate risk. Management believes that the fixed rate deposit provides the Tianduan Group and Tianduan with a steady income stream and is consistent with the Tianduan Group's and Tianduan's treasury management policy.

The Tianduan Group's and Tianduan's interest rate risk also arises from bank borrowings (the "Interest Bearing Liabilities") set out in Note 28. Borrowings issued at fixed rates expose the Tianduan Group and Tianduan to fair value interest rate risk. The Tianduan Group's and Tianduan's policy are to maintain a portfolio of borrowings subject to fixed interest rates. The Tianduan Group and Tianduan also analyse the interest rate exposure periodically by considering refinancing, renewal of existing positions and alternative financing. The Tianduan Group's and Tianduan's Interest Bearing Liabilities include borrowings at fixed rates as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings at fixed rates	43,198	19,500	—	—

If interest rate had been 25 basis points higher/lower for bank balances and deposits and with all other variables held constant, the Tianduan Group's and Tianduan's profit for the years ended 31 December 2009, 2010 and 2011 and for the period ended 30 June 2012 would increase/decrease by RMB255,000, RMB185,000, RMB343,000 and RMB238,000 respectively.

The Tianduan Group and Tianduan have not used any interest rate swaps to hedge their exposure to interest rate risk.

(b) Credit and counterparty risk

Credit risk mainly arises from bank deposits maintained with banks and other financial institutions, entrusted deposit placed in a financial institution, as well as credit exposures to customers, the Tianjin Benefo Group, outstanding trade receivables balance and other debtors. The carrying amounts of these balances substantially represent the Tianduan Group's and Tianduan's maximum exposure to credit and counterparty risk as at the end of each reporting period.

A significant portion of the Tianduan Group's and Tianduan's bank deposits and entrusted deposit are placed with state-owned banks and other financial institutions. The Tianduan Group and Tianduan had a significant concentration of credit risk at 31 December 2011 because it had placed an entrusted deposit approximately RMB50 million with a state-owned financial institution based in Tianjin, PRC. The directors of Tianduan consider that no impairment allowance is necessary in respect of this balance as there has not been a significant change in credit quality of the counter-party.

The Tianduan Group and Tianduan have policies in place to ensure that provision of services are made to customers with an appropriate credit history and the Tianduan Group and Tianduan perform periodic credit evaluations of their customers. According to the Tianduan Group's and Tianduan's historical experience, the irrecoverable trade and other receivables do not exceed the recorded allowances and the directors of Tianduan are of the opinion that adequate provision for uncollectible accounts receivable has been made in the Financial Information.

(c) Liquidity risk

The Tianduan Group and Tianduan adopt prudent liquidity risk management which includes maintaining sufficient bank balances and cash and having funding through an adequate amount of committed credit facilities. The Tianduan Group and Tianduan aim to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Tianduan Group's and Tianduan's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

The Tianduan Group's and Tianduan's financial liabilities will be settled within one year based on the remaining period at the balance sheet date to the contractual maturity date.

Capital risk management

The Tianduan Group's and Tianduan's objectives when managing capital are to safeguard their ability to continue as a going concern in order to provide returns for stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as equity attributable to the owners of Tianduan as shown in the consolidated balance sheet.

In order to maintain or adjust the capital structure, the Tianduan Group and Tianduan may adjust the amount of dividends paid to stakeholders, return capital to stakeholders or sell assets to reduce debt. The Tianduan Group's and Tianduan's policy were unchanged throughout the Relevant Period.

The categories of financial instruments of the Tianduan Group are as follows:

Categories of financial instruments

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	335,032	427,355	480,317	455,161
Financial liabilities				
Financial liabilities at amortized cost	407,967	592,201	445,953	485,842

The categories of financial instruments of Tianduan are as follows:

Categories of financial instruments

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	318,731	405,310	468,659	449,925
Financial liabilities				
Financial liabilities at amortized cost	394,361	571,647	426,607	469,183

Fair value estimation

The fair values of cash and bank deposits, trade receivables, notes receivable, other receivables, entrusted deposit, trade payables, notes payable, other payable, current bank borrowings and balances with subsidiaries and the Tianjin Benefo Group are considered to be approximate their carrying amount due to the short-term maturities of these assets and liabilities.

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the results and the carrying amounts of assets and liabilities of the Tianduan Group are discussed below.

(a) Machine construction contracts

The Tianduan Group recognizes contract revenue and profit of machine construction contracts according to the management's estimation of the final outcome of the projects as well as the percentage of completion of machine construction works. Notwithstanding that management closely reviews and revises the estimates of both contract revenue and costs for the machine construction contracts according to the contract progresses, the actual outcome of the contracts in terms of their total revenue and costs may be higher or lower than the estimates and this will affect the amount of revenue and profit recognized in subsequent periods.

(b) Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Tianduan Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Impairment is made based on the estimation of the future cash flow discounted at the original effective rate to calculate the present value.

5. SEGMENT INFORMATION

An analysis of the Tianduan Group's revenue is as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Machine construction contracts	512,896	804,698	753,124	400,564	325,350
Sales of machines and spare parts	59,141	16,447	40,162	18,723	15,562
	572,037	821,145	793,286	419,287	340,912

As the Tianduan Group derives all its revenue from the manufacture and sale of machineries and related accessories in the PRC, the chief operating decision maker of the Tianduan Group has determined that, for the purpose of resources allocation and performance evaluation, the entire Tianduan Group is a single operating and reportable segment.

The chief operating decision maker monitors the revenue, result, assets and liabilities of its business unit as a whole based on the monthly management accounts which are substantially in conformity with HKFRSs and considers the segment assets and segment liabilities of the Tianduan Group included all assets and liabilities as stated in the consolidated balance sheets respectively, and considers the segment revenue and segment result of the Tianduan Group represented revenue and profit for the year/period as stated in the consolidated statements of comprehensive income respectively.

Furthermore, as all the non-current assets of the Tianduan Group are physically located in the PRC, no geographical information is presented.

6. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Government grants in relation to:					
— subsidies for research and development expenses	4,791	7,058	2,112	1,770	—
— value-added tax refunds	5,378	—	—	—	—
— others	—	2,567	2,429	382	120
Amortization of deferred income	669	668	902	195	652
Interest income	4,285	5,252	6,852	3,957	4,670
Sales of scrap materials	1,804	2,644	3,615	2,287	902
Compensation received from customers arising from breach of contract	157	2,715	—	—	—
Other compensation	—	3,577	98	60	261
Sundries	403	316	74	17	1,432
	17,487	24,797	16,082	8,668	8,037

7. OTHER GAINS AND LOSSES, NET

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net gain (loss) on disposal of property, plant and equipment	156	753	(388)	88	—
Net exchange (loss) gain	(27)	(8)	894	748	(464)
(Loss) gain on dissolution of subsidiaries *(Note 32)*	(1,970)	175	—	—	—
	(1,841)	920	506	836	(464)

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest expenses on bank borrowings repayable within five years	992	1,405	610	430	—
Less: Amounts capitalized	—	(683)	—	—	—
Interest expenses on discounted bills	235	214	229	229	—
	1,227	936	839	659	—

The amount capitalized in 2010 is related to a bank loan raised for a specific machine construction contract. That contract was completed in the same year.

9. TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current taxation					
PRC enterprise income tax ("PRC EIT")	2,682	8,332	9,611	6,642	4,142
Deferred taxation *(Note 17)*					
Attributable to change in tax rate	531	—	—	—	—
Current year	(554)	(2,887)	781	439	95
	2,659	5,445	10,392	7,081	4,237

Throughout the Relevant Period:

(i) Tianduan was subject to a preferential PRC EIT rate of 15% starting from 1 January 2009 because it was qualified as a high-technology enterprise. Prior to this preferential tax arrangement, Tianduan was subject to PRC EIT at the statutory tax rate of 25%;

(ii) All subsidiaries of Tianduan were subject to PRC EIT at the statutory tax rate of 25%.

The tax charge for the year/period can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before tax	32,777	31,131	66,790	44,980	25,275
Calculated at weighted average tax rate	5,692	4,625	10,294	6,812	3,743
Income not subject to taxation	(1,096)	—	—	—	—
Research and development expense entitled to additional tax deduction	(2,850)	—	—	—	—
Expenses not deductible for taxation purposes	382	370	548	269	373
Tax losses not recognized	—	450	—	—	121
Effect on deferred tax assets due to change in income tax rate	531	—	—	—	—
Utilization of tax losses previously not recognized	—	—	(450)	—	—
Tax expense	2,659	5,445	10,392	7,081	4,237
Weighted average tax rate *(note)*	17.37%	14.86%	15.41%	15.14%	14.81%

note: Weighted average tax rate represents the average tax rate of different group entities on the basis of the relevant amounts of profit (loss) before taxation and the relevant tax rates.

10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Auditor's remuneration	114	85	85	43	95
Cost of inventories recognized as an expense	45,803	11,752	31,739	13,077	13,743
Amortization of land use right	—	—	372	—	1,115
Depreciation					
— charged to cost of sales	860	1,576	5,786	2,482	7,104
— charged to administrative expenses	4,180	6,428	7,826	3,255	4,717
Provision for impairment of machine construction contracts	3,312	3,871	4	811	70
Research and development cost					
— charged to cost of sales	—	—	8,086	—	14,757
Write-down of inventories	1,540	—	—	—	—
Employee benefit expense					
— wages, salaries, bonus and social security costs *(notes (a) & (b))*	37,011	38,749	51,139	21,795	22,475
Operating lease rentals on rented premises	2,202	2,202	2,202	1,101	1,101
Provision for impairment of trade receivables	1,666	3,268	—	—	—

notes:

(a) Directors' remuneration

The remuneration of each Director during the Relevant Period were as follows:

	Li Siu Tao	Wu Ri	Xu Ke Zhi	Feng Yong Ping	Cao Li Zhi	Wang Chun Yan	Wang Xue Lei	Hou Hai Yan	Li Jun Yi	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note (i))		*(note (ii))*	*(note (iii))*	*(note (iv))*	*(note (v))*	*(note (vi))*	*(note (iii))*	*(note (vi))*	
For the year ended 31 December 2009										
Fees	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	—	530	530	231	—	—	—	230	—	1,521
Total	—	530	530	231	—	—	—	230	—	1,521
For the year ended 31 December 2010										
Fees	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	—	464	464	334	—	—	—	280	—	1,542
Total	—	464	464	334	—	—	—	280	—	1,542
For the year ended 31 December 2011										
Fees	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	—	405	334	399	—	87	—	287	—	1,512
Total	—	405	334	399	—	87	—	287	—	1,512
For the six months ended 30 June 2011 (unaudited)										
Fees	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	—	262	262	135	—	—	—	108	—	767
Total	—	262	262	135	—	—	—	108	—	767
For the six months ended 30 June 2012										
Fees	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	—	145	—	—	—	107	—	—	—	252
Total	—	145	—	—	—	107	—	—	—	252

notes:

(i) Resigned on 3 March 2011.

(ii) Resigned on 14 July 2011.

(iii) Resigned on 11 October 2011.

(iv) Appointed on 3 March 2011.

(v) Appointed on 14 July 2011.

(vi) Appointed on 11 October 2011.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Tianduan Group, four, four, three, four and two are directors for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012 and their emoluments are shown in Note 10(a).

The emolument of the remaining individuals for the Relevant Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fee	—	—	—	—	—
Salaries, bonus and other benefits	201	272	653	104	350
	201	272	653	104	350

The emoluments of the remaining individuals were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011** (unaudited)	**2012**
Emoluments bands					
HK$nil to HK$1,000,000	1	1	2	1	3

11. DIVIDENDS

No dividend was paid, declared or proposed during the Relevant Period, nor has any dividend been proposed since 30 June 2012, by Tianduan or by any of its subsidiaries.

12. EARNINGS PER SHARE

Earnings per share is not presented as it is not considered meaningful having regard to the purpose of this Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

The Tianduan Group

	Buildings	Plant and machinery	Motor vehicles	Office and other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2009	2,648	25,322	3,399	5,236	1,862	38,467
Additions	114	1,123	1,589	489	89,032	92,347
Disposals	—	(404)	(1,565)	(271)	—	(2,240)
At 31 December 2009	2,762	26,041	3,423	5,454	90,894	128,574
Additions	2,530	697	2,734	739	25,344	32,044
Transfer	90,826	24,011	—	—	(114,837)	—
Disposals	—	(55)	(1,657)	(25)	—	(1,737)
Dissolution of a subsidiary	—	—	(17)	—	—	(17)
At 31 December 2010	96,118	50,694	4,483	6,168	1,401	158,864
Additions	7,253	3,094	1,437	973	58,793	71,550
Injected by an owner *(Note 24)*	65,380	—	—	—	—	65,380
Transfer	1,167	58,997	—	30	(60,194)	—
Disposals	(560)	(413)	(1,129)	(61)	—	(2,163)
At 31 December 2011	169,358	112,372	4,791	7,110	—	293,631
Additions	460	600	—	64	3,136	4,260
Transfer	237	317	—	—	(554)	—
Disposals	(85)	—	—	—	—	(85)
At 30 June 2012	169,970	113,289	4,791	7,174	2,582	297,806
ACCUMULATED DEPRECIATION						
At 1 January 2009	126	11,076	734	1,310	—	13,246
Provided for the year	226	2,397	1,022	1,395	—	5,040
Disposals	—	(91)	(776)	(257)	—	(1,124)
At 31 December 2009	352	13,382	980	2,448	—	17,162
Provided for the year	3,231	2,265	1,388	1,120	—	8,004
Disposals	—	(43)	(688)	(17)	—	(748)
Dissolution of a subsidiary	—	—	(12)	—	—	(12)
At 31 December 2010	3,583	15,604	1,668	3,551	—	24,406
Provided for the year	6,227	4,979	1,024	1,382	—	13,612
Disposals	(113)	(232)	(246)	(53)	—	(644)
At 31 December 2011	9,697	20,351	2,446	4,880	—	37,374
Provided for the period	5,246	5,610	553	412	—	11,821
Disposals	(2)	—	—	—	—	(2)
At 30 June 2012	14,941	25,961	2,999	5,292	—	49,193
CARRYING VALUE						
At 31 December 2009	2,410	12,659	2,443	3,006	90,894	111,412
At 31 December 2010	92,535	35,090	2,815	2,617	1,401	134,458
At 31 December 2011	159,661	92,021	2,345	2,230	—	256,257
At 30 June 2012	155,029	87,328	1,792	1,882	2,582	248,613

Tianduan

	Buildings	Plant and machinery	Motor vehicles	Office and other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2009	2,648	17,457	2,620	4,950	1,862	29,537
Additions	—	1,073	1,461	489	88,947	91,970
Disposals	—	(14)	(1,564)	(270)	—	(1,848)
At 31 December 2009	2,648	18,516	2,517	5,169	90,809	119,659
Additions	1,116	659	2,558	723	25,323	30,379
Transfer	90,826	23,930	—	—	(114,756)	—
Disposals	—	(55)	(1,566)	(6)	—	(1,627)
At 31 December 2010	94,590	43,050	3,509	5,886	1,376	148,411
Additions	7,253	3,075	1,310	963	58,793	71,394
Injected by an owner *(Note 24)*	65,380	—	—	—	—	65,380
Transfer	1,167	58,972	—	30	(60,169)	—
Disposals	(560)	(254)	(975)	(61)	—	(1,850)
At 31 December 2011	167,830	104,843	3,844	6,818	—	283,335
Additions	460	600	—	59	3,136	4,255
Transfer	237	317	—	—	(554)	—
Disposals	(85)	—	—	—	—	(85)
At 30 June 2012	168,442	105,760	3,844	6,877	2,582	287,505
ACCUMULATED DEPRECIATION						
At 1 January 2009	126	10,358	493	1,219	—	12,196
Provided for the year	126	1,631	947	1,361	—	4,065
Disposals	—	(13)	(776)	(257)	—	(1,046)
At 31 December 2009	252	11,976	664	2,323	—	15,215
Provided for the year	2,933	1,539	1,270	1,056	—	6,798
Disposals	—	(43)	(589)	—	—	(632)
At 31 December 2010	3,185	13,472	1,345	3,379	—	21,381
Provided for the year	6,168	4,288	892	1,297	—	12,645
Disposals	(113)	(154)	(196)	(53)	—	(516)
At 31 December 2011	9,240	17,606	2,041	4,623	—	33,510
Provided for the period	5,217	5,271	475	394	—	11,357
Disposals	(2)	—	—	—	—	(2)
At 30 June 2012	14,455	22,877	2,516	5,017	—	44,865
CARRYING VALUE						
At 31 December 2009	2,396	6,540	1,853	2,846	90,809	104,444
At 31 December 2010	91,405	29,578	2,164	2,507	1,376	127,030
At 31 December 2011	158,590	87,237	1,803	2,195	—	249,825
At 30 June 2012	153,987	82,883	1,328	1,860	2,582	242,640

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	5–10 years
Motor vehicles	4–10 years
Office and other equipment	3–5 years

14. LAND USE RIGHT

The Tianduan Group and Tianduan

This represents prepaid operating lease payment for land held on lease of 48 years in the PRC.

The following are the movements during the Relevant Period:

	RMB'000
COST	
At 1 January 2009, 31 December 2009 and 31 December 2010	—
Additions	3,339
Injected by an owner *(Note 24)*	104,802
At 31 December 2011 and 30 June 2012	108,141
AMORTIZATION	
At 1 January 2009, 31 December 2009 and 31 December 2010	—
Provided for the year	372
At 31 December 2011	372
Provided for the period	1,115
At 30 June 2012	1,487
CARRYING VALUE	
At 31 December 2009 and 31 December 2010	—
At 31 December 2011	107,769
At 30 June 2012	106,654

15. GOODWILL

This goodwill is attributable to the Tianduan Group's interests in Tianduan Ruifung which is a CGU on its own.

During the Relevant Period, the directors of Tianduan determined that there was no impairment of this CGU.

For the purpose of impairment testing, the recoverable amount of the goodwill has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 8.4%, 9.11%, 9.24%, 9.24% for the year ended 31 December 2009, 2010, 2011 and six months ended 30 June 2012. The growth rate used is based on management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for the market development. The directors of Tianduan believe that any reasonably possible change in any of these assumptions will not cause the recoverable amount of the CGU to fall below its carrying amount.

16. INVESTMENTS IN SUBSIDIARIES

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	13,550	13,250	13,250	13,250

Details of the subsidiaries at the end of the Relevant Period are set out in page 32 of this circular.

17. DEFERRED TAXATION

The Tianduan Group and Tianduan

The following are the major deferred tax assets recognized and movements thereon during the Relevant Period:

	Provision for impairment of construction contracts	Provision for impairment of inventories	Provision for impairment of trade receivables	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	553	318	—	458	1,329
Deferred tax credited (charged) to statement of comprehensive income	176	231	247	(100)	554
Effect of change in tax rate	(221)	(127)	—	(183)	(531)
At 31 December 2009	508	422	247	175	1,352
Deferred tax credited to statement of comprehensive income	148	—	440	2,299	2,887
At 31 December 2010	656	422	687	2,474	4,239
Deferred tax charged to statement of comprehensive income	(646)	—	—	(135)	(781)
At 31 December 2011	10	422	687	2,339	3,458
Deferred tax credited (charged) to statement of comprehensive income	3	—	—	(98)	(95)
At 30 June 2012	13	422	687	2,241	3,363

At the end of the Relevant Period, the Tianduan Group had unused tax losses available for offset against future profits as follows.

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unused tax losses	477	1,798	—	477

No deferred tax is recognized due to unpredictability of future profit stream. The tax losses can be carried forward for 5 years from the year they arise.

18. INVENTORIES

The Tianduan Group

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Materials and spare parts	17,398	43,814	27,572	53,049
Work in progress	7,756	5,844	1,788	16,991
Finished goods	17,791	7,245	14,536	4,545
	42,945	56,903	43,896	74,585

Tianduan

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Materials and spare parts	14,644	36,894	19,532	47,084
Work in progress	6,976	1,421	20	281
Finished goods	8,297	1,611	1,477	623
	29,917	39,926	21,029	47,988

19. TRADE RECEIVABLES, NOTES RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Tianduan Group

		At 31 December			At 30 June
	notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables					
Fully performing	(a)	33,679	37,672	56,924	51,087
Past due but not impaired	(b)	54,729	46,434	32,414	48,485
Impaired	(c)	1,646	4,578	4,578	4,578
Trade receivables — gross		90,054	88,684	93,916	104,150
Less: provision for impairment		(1,646)	(4,578)	(4,578)	(4,578)
Trade receivables — net		88,408	84,106	89,338	99,572
Notes receivable	(e)	98,902	222,287	164,621	114,934
	(d) (f)	187,310	306,393	253,959	214,506

Tianduan

		At 31 December			At 30 June
	notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables					
Fully performing	(a)	33,499	37,672	56,924	50,122
Past due but not impaired	(b)	52,987	45,145	31,258	47,770
Impaired	(c)	1,646	4,578	4,578	4,578
Trade receivables — gross		88,132	87,395	92,760	102,470
Less: provision for impairment		(1,646)	(4,578)	(4,578)	(4,578)
Trade receivables — net		86,486	82,817	88,182	97,892
Notes receivable	(e)	94,617	218,690	160,879	114,834
	(f)	181,103	301,507	249,061	212,726

notes:

(a) The Tianduan Group and Tianduan have a credit policy which is dependent on the practice of the market and the business. In general, credit periods of 90 to 180 days are granted to customers. For those full performing are trade receivables with no history of default payment.

(b) Trade receivables that were past due but not impaired are related to a wide range of customers, and management believes that no impairment provision is necessary as there has not been a significant change in the credit quality and the balances are still considered fully recoverable. The ageing analysis, based on invoice date, of these trade receivables is as follows:

The Tianduan Group

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
181 to 365 days	32,667	28,134	19,967	30,738
Over 365 days	22,062	18,300	12,447	17,747
	54,729	46,434	32,414	48,485

Tianduan

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
181 to 365 days	31,938	27,584	19,502	30,725
Over 365 days	21,049	17,561	11,756	17,045
	52,987	45,145	31,258	47,770

(c) As at 31 December 2009, 2010 and 2011 and 30 June 2012, trade receivables of RMB1,646,000, RMB4,578,000, RMB4,578,000 and RMB4,578,000 respectively were impaired. The age and settlement record of these receivables were considered for the purpose of impairment review.

The Tianduan Group and Tianduan

Movements on the provision for impairment of trade receivables are as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	210	1,646	4,578	4,578
Recognized during the year/period	1,666	3,268	—	—
Amount write off as uncollectible	(230)	(336)	—	—
At end of the year/period	1,646	4,578	4,578	4,578

The creation and release of provision for impaired receivables are included in other gains and losses in the consolidated statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash as the counterparties are mainly in financial difficulties.

(d) The ageing analysis, based on invoice date of trade and notes receivables (net of provisions) is as follows:

The Tianduan Group

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	116,747	155,538	141,143	121,255
91 to 180 days	15,834	104,421	80,402	44,766
181 to 365 days	32,667	28,134	19,967	30,738
Over 365 days	22,062	18,300	12,447	17,747
	187,310	306,393	253,959	214,506

Tianduan

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	112,282	155,411	140,015	120,511
91 to 180 days	15,834	100,951	77,788	44,445
181 to 365 days	31,938	27,584	19,502	30,725
Over 365 days	21,049	17,561	11,756	17,045
	181,103	301,507	249,061	212,726

(e) At 31 December 2009 and 31 December 2010, the Tianduan Group and Tianduan discounted certain notes receivable to banks with recourse. The Tianduan Group and Tianduan continued to recognize the carrying amount of those receivables as the Tianduan Group and Tianduan were still exposed to credit risk on these receivables and recognized the corresponding proceeds received as bank borrowings in Note 28. At 31 December 2009 and 2010, the carrying amount of notes receivable discounted with recourse and the associated liabilities were approximately HK$10,198,000 and HK$6,500,000 respectively.

(f) The carrying amounts of trade receivables, notes receivable, other receivables and deposits approximate their fair value and are mainly denominated in Renminbi. The Tianduan Group and Tianduan has no significant concentrations of credit risk in relation to these receivables and does not hold any collateral as security.

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The Tianduan Group and Tianduan

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracts in progress at the end of the Relevant Period				
Contract costs incurred	722,167	1,229,178	1,380,456	1,352,554
Add: recognized profits less recognized losses	162,184	261,125	344,099	289,734
Less: progress billings	(861,639)	(1,389,517)	(1,598,291)	(1,447,092)
	22,712	100,786	126,264	195,196
Analyzed for reporting purposes as:				
Amounts due from contract customers included in current assets	137,064	220,383	215,950	250,298
Amounts due to contract customers included in current liabilities	(114,352)	(119,597)	(89,686)	(55,102)
	22,712	100,786	126,264	195,196

At 31 December 2009, 2010, 2011 and 30 June 2012, retentions held by customers for contract works amounted to RMB22,188,000, RMB19,562,000, RMB23,264,000 and RMB24,304,000 respectively were included in trade receivables.

At 31 December 2009, 2010, 2011 and 30 June 2012, advances received from customers for contracts entered but not yet commenced were RMB31,240,000, RMB25,103,000, RMB23,799,000 and RMB12,693,000 respectively, and were included in other payables.

21. AMOUNTS DUE FROM (TO) THE TIANJIN BENEFO GROUP AND SUBSIDIARIES

The Tianduan Group

	At 1 January	At 31 December			At 30 June	Maximum amount outstanding during the year/period			
									30 June
	2009	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from the Tianjin Benefo Group	23,398	22,709	17,772	11,539	10,587	22,709	22,850	17,772	11,539
Amounts due to the Tianjin Benefo Group		62,654	126,389	16,025	18,688				

Tianduan

	At 1 January	At 31 December			At 30 June	Maximum amount outstanding during the year/period			30 June
	2009	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from the Tianjin Benefo Group	23,398	22,222	17,339	11,106	10,154	22,222	22,417	17,339	11,106
Amounts due to the Tianjin Benefo Group		62,083	126,389	16,025	18,688				
Amounts due to subsidiaries		4,404	6,987	1,550	2,137				

note:

The following balances included in the above balances are trade in nature and aged within 90 days based on invoice date:

The Tianduan Group

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to the Tianjin Benefo Group	3,797	11,953	2,527	3,191

Tianduan

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to the Tianjin Benefo Group	3,773	11,953	2,527	3,191
Amounts due to subsidiaries	4,404	6,987	1,550	2,137

The remaining balances are unsecured, interest free and have no fixed repayment term and mainly denominated in Renminbi.

22. ENTRUSTED DEPOSIT

The Tianduan Group and Tianduan

As at 31 December 2011, an entrusted deposit was placed with a financial institution based in Tianjin, PRC with maturity of 3 months after the end of the reporting period. The deposit carry effective rate of return of 5% per annum. The amount was fully settled during the six-month period ended 30 June 2012.

23. RESTRICTED BANK BALANCES/CASH AND CASH EQUIVALENTS

The Tianduan Group and Tianduan

The bank balances of the Tianduan Group and Tianduan carry interest at market rates as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
Range of interest rates per annum	0.36% to 1.71%	0.36% to 1.17%	0.5% to 1.31%	0.35% to 1.35%

The restricted bank balances are bank deposits pledged against notes payable issued by the respective banks. The restricted bank balances at the end of each reporting period carried the same interest rates as the other non-restricted bank balances.

24. REGISTERED CAPITAL

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	18,830	18,830	18,830	50,776
Capital contribution *(note)*	—	—	31,946	—
At end of the year/period	18,830	18,830	50,776	50,776

note: During the year ended 31 December 2011, Tianjin Tai Kang, Tianjin Benefo and Mr. Wu Ri entered into a capital contribution agreement, pursuant to which Tianjin Tai Kang and Mr. Wu Ri contributed cash of RMB135,000,000 and approximately RMB83,833,000 respectively, and Tianjin Benefo contributed land and properties with an aggregate value of approximately RMB170,182,000, into Tianduan. As a result of such capital contributions, the registered capital and capital reserve of Tianduan was increased by RMB31,946,000 and RMB357,069,000, respectively.

25. RESERVES

The Tianduan Group

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2009	—	2,110	26,695	28,805
Profit and total comprehensive income for the year	—	—	30,118	30,118
Transfer between reserves	—	2,525	(2,525)	—
At 31 December 2009	—	4,635	54,288	58,923
Profit and total comprehensive income for the year	—	—	25,686	25,686
Transfer between reserves	—	2,615	(2,615)	—
At 31 December 2010	—	7,250	77,359	84,609
Profit and total comprehensive income for the year	—	—	56,398	56,398
Capital contributions *(Note 24)*	357,069	—	—	357,069
Transfer between reserves	—	5,390	(5,390)	—
At 31 December 2011	357,069	12,640	128,367	498,076
Profit and total comprehensive income for the period	—	—	21,038	21,038
At 30 June 2012	357,069	12,640	149,405	519,114
At 1 January 2011 (audited)	—	7,250	77,359	84,609
Profit and total comprehensive income for the period	—	—	37,899	37,899
At 30 June 2011 (unaudited)	—	7,250	115,258	122,508

Tianduan

	Capital reserve	**Statutory reserves**	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	—	2,110	25,759	27,869
Profit and total comprehensive income for the year	—	—	24,105	24,105
Transfer between reserves	—	2,411	(2,411)	—
At 31 December 2009	—	4,521	47,453	51,974
Profit and total comprehensive income for the year	—	—	26,146	26,146
Transfer between reserves	—	2,615	(2,615)	—
At 31 December 2010	—	7,136	70,984	78,120
Profit and total comprehensive income for the year	—	—	53,901	53,901
Capital contributions *(Note 24)*	357,069	—	—	357,069
Transfer between reserves	—	5,390	(5,390)	—
At 31 December 2011	357,069	12,526	119,495	489,090
Profit and total comprehensive income for the period	—	—	21,522	21,522
At 30 June 2012	357,069	12,526	141,017	510,612
At 1 January 2011 (audited)	—	7,136	70,984	78,120
Profit and total comprehensive income for the period	—	—	26,495	26,495
At 30 June 2011 (unaudited)	—	7,136	97,479	104,615

Statutory reserves are reserves required by the relevant PRC laws applicable to the Tianduan Group's entities established in the PRC and cannot be used for distribution in the form of cash dividends.

According to the articles of association of each of the Tianduan Group's entities established in the PRC, a percentage of net profit as reported in the PRC statutory accounts must be appropriated to reserve fund and enterprise expansion reserve, both of which are classified under statutory reserves. The percentage of appropriation is determined at the discretion of the board of directors of the respective group entities. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

26. DEFERRED INCOME

The Tianduan Group and Tianduan

	RMB'000
At 1 January 2009	1,832
Released to profit or loss	(669)
At 31 December 2009	1,163
Additions	16,000
Released to profit or loss	(668)
At 31 December 2010	16,495
Released to profit or loss	(902)
At 31 December 2011	15,593
Released to profit or loss	(652)
At 30 June 2012	14,941

This represents the government subsidy received by Tianduan towards the cost of construction of its manufacturing plant.

The amount is transferred to income over the useful lives of the relevant assets.

27. TRADE PAYABLES, NOTES PAYABLE, OTHER PAYABLES AND ACCRUALS

The ageing analysis of trade and notes payables, based on invoice date, is as follows:

The Tianduan Group

	At 31 December			**At 30 June**
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	119,512	160,826	236,067	266,745
91 to 180 days	19,881	52,199	59,148	66,355
181 to 365 days	90,359	175,346	57,029	61,691
Over 365 days	3,464	4,202	8,034	16,880
	233,216	392,573	360,278	411,671

Tianduan

The ageing analysis of Tianduan's trade and notes payables, based on invoice date, is as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	110,396	154,820	231,762	258,725
91 to 180 days	18,492	48,314	50,979	63,908
181 to 365 days	88,103	173,794	52,731	54,289
Over 365 days	1,820	1,081	4,155	16,880
	218,811	378,009	339,627	393,802

The carrying amounts of trade and notes payables approximate their fair value and are mainly denominated in Renminbi.

The other payables and accruals mainly consist of receipts in advance, value added tax payable, payables for property, plant and equipment and accruals.

28. BANK BORROWINGS

The Tianduan Group and Tianduan

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Bank borrowings	33,000	13,000	—	—
Discounted notes with recourse	10,198	6,500	—	—
	43,198	19,500	—	—

The carrying amounts of all borrowings approximate their fair values.

As at 31 December 2009, bank borrowings of RMB20,000,000 was secured by bank deposit of Tianjin Tai Kang, and the remaining balance of RMB13,000,000 was guaranteed by Tianjin Benefo.

At 31 December 2010, all bank loans were guaranteed by Tianjin Benefo.

At 31 December 2011, no bank borrowing was outstanding and all guarantees provided by Tianjin Benefo expired together with the loans.

All the bank loans are fixed-rate borrowings and denominated at Renminbi with the annual rates ranging as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
Range of interest rates per annum	4.86% to 8.22%	4.86% to 5.76%	5.58% to 6.66%	—

29. OPERATING LEASES

The Tianduan Group and Tianduan as a lessee

At the end of each reporting period, the Tianduan Group and Tianduan had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than one year	2,202	2,202	1,101	—
Later than one year and not later than five years	3,303	1,101	—	—
	5,505	3,303	1,101	—

Operating lease payments represent rentals payable by the Tianduan Group and Tianduan for certain of their factory and office premises. Leases are negotiated for an average term of one to two years and rentals are fixed at the date of signing of lease agreements.

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of operating profit to net cash generated from operation:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before tax	32,777	31,131	66,790	44,980	25,275
Adjustments for:					
Interest income	(4,285)	(5,252)	(6,852)	(3,957)	(4,670)
Finance costs	1,227	936	839	659	—
Depreciation	5,040	8,004	13,612	5,737	11,821
Amortization of deferred income	(669)	(668)	(902)	(195)	(652)
Amortization of land use right	—	—	372	—	1,115
Net (gain) loss on disposal of property, plant and equipment	(156)	(753)	388	(88)	—
Loss (gain) on dissolution of subsidiaries	1,970	(175)	—	—	—
Provision for impairment of trade receivables	1,666	3,268	—	—	—
Provision for impairment of machine construction contracts	1,353	3,871	4	811	70
Write-down of inventories	1,540	—	—	—	—
Operating cash flows before movements in working capital	40,463	40,362	74,251	47,947	32,959
Decrease (increase) in inventories	15,723	(13,958)	13,007	6,256	(30,689)
Decrease (increase) in trade receivables	5,164	4,302	(5,232)	(62,922)	(10,234)
(Increase) decrease in notes receivable	(22,164)	(123,385)	57,666	34,768	49,687
Decrease (increase) in other receivables, deposits and prepayments	6,977	(25,012)	7,530	10,573	12,631
(Increase) decrease in amounts due from customers for contract work	(98,563)	(87,190)	4,429	8,950	(34,418)
Decrease in amounts due from Tianjin Benefo Group	689	4,937	6,233	6,233	952
Increase (decrease) in amounts due to the Tianjin Benefo Group	21,486	3,735	(5,364)	(110,363)	2,163
Increase (decrease) in trade payables	73,513	158,114	(87,120)	(22,440)	19,538
Increase in notes payable	—	2,600	55,683	14,400	31,938
Increase (decrease) in other payables and accruals	16,469	(23,108)	14,978	132,458	(25,364)
Increase (decrease) in amounts due to customers for contract work	55,110	5,245	(29,911)	(14,948)	(34,584)
	114,867	(53,358)	106,150	50,912	14,579

31. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Transactions

During the Relevant Period, the Tianduan Group entered into the following significant transactions with the Tianjin Benefo Group:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of raw materials	79	3,265	647	2,664	300
Purchases of property, plant and equipment	2,107	11,372	524	23	2,538
Rental for factory and office premises *(note)*	2,202	2,202	2,202	1,101	1,101
	4,388	16,839	3,373	3,788	3,939

note: The related operating lease commitment on the lease of the factory and office premises are set out in Note 29.

(b) Balances

Details of balances with the Tianjin Benefo Group are set out in Note 21.

(c) Compensation of key management personnel

The remuneration of Tianduan's directors and other members of key management personnel during the Relevant Period was as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other emoluments	1,921	2,087	2,165	738	697

The remuneration of Tianduan's directors and key executives is determined with reference to the performance of individuals and market trends.

(d) Guarantees

As set out in Note 28, certain bank borrowings were secured by assets and guarantees of related companies during the Relevant Period. These guarantees were released upon repayment of the relevant bank borrowings.

(e) Transactions/balances with other state-controlled enterprises in the PRC

The Tianduan Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-owned entities"). In addition, the Tianduan Group itself is part of the Tianjin Benefo Group which is controlled by the PRC government. Apart from the transactions with Tianjin Benefo and fellow subsidiaries disclosed above, the Tianduan Group also conducts business with other state-owned entities. The Tianduan's directors consider those state-owned entities are independent third parties so far as the Tianduan Group's business transactions with them are concerned. The Tianduan's directors are of the opinion that transactions with other state-owned entities are not significant to the Tianduan Group's operations.

In addition, the Tianduan Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-owned entities in its ordinary course of business. In view of the nature of those banking transactions, the Tianduan's directors are of the opinion that separate disclosure would not be meaningful.

32. DISSOLUTION OF SUBSIDIARIES

Two subsidiaries, namely Tianduan Machinery and Tianduan Pump Machines, were dissolved on 10 December 2009 and 1 September 2010, respectively.

The assets and liabilities of the subsidiaries on the date of dissolution are as follows:

	2009	**2010**
	RMB'000	*RMB'000*
Property, plant and equipment	—	5
Trade and other receivables	20,610	210
Trade and other payables	(17,610)	(390)
Non-controlling interests	(1,030)	—
Net assets (liabilities) disposed of, and the loss (gain) recognized on dissolution	1,970	(175)

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Tianduan, any of its subsidiaries or the Tianduan Group have been prepared in respect of any period subsequent to 30 June 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report received from Deloitte Touche Tohmatsu, an independent reporting accountant, prepared for the purpose of incorporation in this circular.

Deloitte.
德勤

22 November 2012

The Directors
Tianjin Development Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. ("Tianfa Equipment") for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 (the "Relevant Period") (the "Financial Information") for inclusion in a circular dated 22 November 2012 issued by Tianjin Development Holdings Limited ("Tianjin Development") in connection with its acquisition of, amongst others, 66% equity interest in Tianfa Equipment (the "Tianfa Acquisition") (the "Circular").

The Tianfa Acquisition is deemed to be a major and connected transaction under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Tianfa Equipment is a limited liability company established in the People's Republic of China (the "PRC") on 2 February 2001 for a period of 55 years. Tianfa Equipment is principally engaged in the design, manufacture, sale and provision of consultation services of hydroelectric equipment and large scale pump unit in the PRC.

As a domestic company, the statutory financial statements of Tianfa Equipment for the relevant financial years during the Relevant Period were prepared in accordance with the Accounting System for Business Enterprises issued by the Ministry of Finance of the PRC ("MOF") (企業會計制度) and audited by certified public accountants registered in the PRC, as follows:

Financial period	Name of statutory auditor
For each of the two years ended 31 December 2009 and 2010	Tianjin Jinhua Certified Public Accountants Ltd. 天津市津華有限責任會計師事務所
For the year ended 31 December 2011	Tianjin Guangxin Certified Public Accountants Co., Ltd. 天津廣信有限責任會計師事務所

For the purpose of this report, the directors of Tianfa Equipment have prepared financial statements of Tianfa Equipment for the Relevant Period in accordance with the Accounting Standards for Business Enterprises (企業會計準則, "ASBEs") issued by the MOF (the "Underlying Financial Statements").

The Underlying Financial Statements have been audited by Deloitte Touch Tohmatsu CPA Ltd., certified public accountants registered in the PRC in accordance with China Auditing Standards (中國註冊會計師審計準則) issued by the China Auditing Standards Board.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements after making such adjustments as we consider appropriate for the purpose of preparing our report in accordance with the accounting policies which conform with the Hong Kong Financial Reporting Standards issued by the HKICPA ("HKFRSs") for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Tianfa Equipment who approved their issue. The directors of Tianjin Development are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Tianfa Equipment as at 31 December 2009, 2010 and 2011 and 30 June 2012 and of the results and cash flows of Tianfa Equipment for the Relevant Period.

The comparative statement of comprehensive income, statement of changes in equity and statement of cash flows of Tianfa Equipment for the six months ended 30 June 2011 together with the notes thereon have been extracted from Tianfa Equipment's unaudited financial information for the same period (the "June 2011 Financial Information") which was prepared by the directors of Tianfa Equipment solely for the purpose of this report. We conducted our review on the June 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. Our review of the June 2011 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2009	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	5	344,767	471,310	487,300	228,924	281,370
Cost of sales		(306,845)	(388,611)	(369,065)	(177,823)	(215,558)
Gross profit		37,922	82,699	118,235	51,101	65,812
Other income	6	9,650	12,043	8,332	3,799	4,646
Other gains and losses, net	7	57	(108)	(127)	(93)	9
Selling expenses		(22,903)	(23,213)	(27,981)	(9,846)	(13,141)
Research and development costs		(22,727)	(28,301)	(26,696)	(10,387)	(13,255)
General and administrative expenses		(31,138)	(49,767)	(43,783)	(27,089)	(20,458)
Other operating (expenses) income, net		(762)	2,351	(699)	(581)	32
Finance costs	8	(3,778)	(2,843)	(3,441)	(1,564)	(2,441)
(Loss) profit before tax		(33,679)	(7,139)	23,840	5,340	21,204
Tax (expense) credit	9	(1,295)	2,302	(1,841)	(125)	(2,228)
(Loss) profit and total comprehensive (expense) income for the year/period	10	(34,974)	(4,837)	21,999	5,215	18,976

BALANCE SHEETS

		As at 31 December			As at 30 June
	Notes	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	13	155,264	144,184	136,633	131,687
Land use right	14	66,052	64,614	63,176	62,457
Deferred tax assets	15	4,418	6,720	4,879	2,651
		225,734	215,518	204,688	196,795
Current assets					
Inventories	16	37,019	45,764	36,755	52,716
Trade receivables	17	219,456	191,911	250,148	246,210
Notes receivable	17	3,674	5,230	8,819	9,648
Other receivables, deposits and prepayments	17	57,862	54,381	56,766	49,248
Amounts due from customers for contract work	18	185,270	311,842	293,768	373,152
Amounts due from the Tianjin Benefo Group	19	15,023	2,228	2,278	2,228
Financial assets at fair value through profit or loss	20	276	295	18,239	495
Restricted bank balances	21	81,085	122,789	62,138	66,911
Cash and cash equivalents	21	41,974	40,784	33,016	54,374
		641,639	775,224	761,927	854,982
Total assets		867,373	990,742	966,615	1,051,777
EQUITY					
Registered capital	22	180,598	180,598	180,598	180,598
Reserves	23	193,160	188,323	206,763	225,739
Total equity		373,758	368,921	387,361	406,337

	Notes	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 30 June 2012 RMB'000
LIABILITIES					
Non-current liability					
Deferred income	24	3,381	9,869	8,940	8,476
Current liabilities					
Trade payables	25	103,942	156,673	199,521	228,108
Notes payable	25	—	52,729	8,455	66,200
Other payables and accruals	25	97,077	92,143	97,138	67,081
Amounts due to customers for contract work	18	141,282	149,139	104,607	119,295
Amounts due to the Tianjin Benefo Group	19	9,407	26,635	33,160	30,824
Bank borrowings	26	110,000	110,000	106,000	106,000
Current tax liabilities		28,526	24,633	21,433	19,456
		490,234	611,952	570,314	636,964
Total liabilities		493,615	621,821	579,254	645,440
Total equity and liabilities		867,373	990,742	966,615	1,051,777
Net current assets		151,405	163,272	191,613	218,018
Total assets less current liabilities		377,139	378,790	396,301	414,813

STATEMENTS OF CHANGES IN EQUITY

	Registered capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2009	180,598	39,807	188,327	408,732
Loss and total comprehensive expense for the year	—	—	(34,974)	(34,974)
At 31 December 2009	180,598	39,807	153,353	373,758
Loss and total comprehensive expense for the year	—	—	(4,837)	(4,837)
At 31 December 2010	180,598	39,807	148,516	368,921
Profit and total comprehensive income for the year	—	—	21,999	21,999
Dividend paid *(Note 11)*	—	—	(3,559)	(3,559)
Transfer between reserves	—	2,200	(2,200)	—
At 31 December 2011	180,598	42,007	164,756	387,361
Profit and total comprehensive income for the period	—	—	18,976	18,976
At 30 June 2012	180,598	42,007	183,732	406,337
At 1 January 2011 (audited)	180,598	39,807	148,516	368,921
Profit and total comprehensive income for the period	—	—	5,215	5,215
Dividend paid *(Note 11)*	—	—	(3,559)	(3,559)
At 30 June 2011 (unaudited)	180,598	39,807	150,172	370,577

STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2011	2012
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flow from (used in) operating activities						
Cash generated from (used in) operations	28	74,431	41,992	(59,929)	(64,995)	31,261
Interest paid		(3,778)	(2,843)	(3,441)	(1,564)	(2,441)
PRC income tax paid		(2,079)	(3,893)	(3,200)	(219)	(1,977)
Net cash from (used in) operating activities		68,574	35,256	(66,570)	(66,778)	26,843
Cash flow (used in) from investing activities						
Interest received		1,865	1,618	2,233	548	1,740
Purchase of property, plant and equipment		(13,762)	(3,667)	(7,375)	(3,897)	(2,456)
Proceeds from disposal of property, plant and equipment		157	307	852	1,561	4
Increase in deferred income		—	7,000	—	—	—
(Placement) release of restricted bank balances		(39,528)	(41,704)	60,651	38,956	(4,773)
Net cash (used in) from investing activities		(51,268)	(36,446)	56,361	37,168	(5,485)
Cash flow (used in) from financing activities						
Drawdown of bank borrowings		150,000	110,000	106,000	—	50,000
Repayment of bank borrowings		(150,000)	(110,000)	(110,000)	—	(50,000)
(Repayment to) advance from the Tianjin Benefo Group		(600)	—	10,000	600	—
Dividend paid		—	—	(3,559)	(3,559)	—
Net cash (used in) from financing activities		(600)	—	2,441	(2,959)	—

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net increase (decrease) in cash and cash equivalents	16,706	(1,190)	(7,768)	(32,569)	21,358
Cash and cash equivalents at beginning of the year/period	25,268	41,974	40,784	40,784	33,016
Cash and cash equivalents at end of the year/period, represented cash and cash equivalents	41,974	40,784	33,016	8,215	54,374

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The registered office of Tianfa Equipment is located at 70 Tianjin Zhongji Industry Park, Gaofeng Road, Beichen, Tianjin, PRC.

During the Relevant Period and at the date of this report, the registered capital of Tianfa Equipment is held as follows:

		Percentage held %			
		As at 31 December			As at 30 June
Name of equity owner	*notes*	**2009**	**2010**	**2011**	**2012**
Tianjin Benefo	(i)	59.66	66.00	66.00	66.00
Tianjin Tai Kang	(ii)	34.00	34.00	34.00	34.00
An independent third party		6.34	—	—	—
		100.00	100.00	100.00	100.00

notes:

(i) Tianjin Benefo Machinery & Electric Holding Co., Ltd. 天津百利機電控股集團有限公司 ("Tianjin Benefo") is a company established in the PRC and controlled by Tianjin Municipal Government. Tianjin Benefo together with its subsidiaries other than Tianfa Equipment is hereafter collectively referred to as the Tianjin Benefo Group.

(ii) Tianjin Tai Kang Industrial Co., Ltd. 天津泰康實業有限公司 ("Tianjin Tai Kang") is a 82.74% owned subsidiary of Tianjin Development.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Information are set out below.

The Financial Information has been prepared in accordance with accounting policies set out below which conform with HKFRSs issued by the HKICPA and are prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Financial Information requires the use of certain critical accounting estimate. It also requires management to exercise the judgment in the process of applying Tianfa Equipment's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

Application of HKFRSs

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations (hereinafter collectively referred to as the "new HKFRSs") which are effective for Tianfa Equipment's accounting period beginning on 1 January 2012. For the purposes of preparing and presenting the Financial Information of the Relevant Period, Tianfa Equipment has adopted all these new HKFRSs consistently throughout the Relevant Period.

At the date of this report, the following new and revised standards, amendments and interpretation have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2015.

3 Effective for annual periods beginning on or after 1 July 2012.

4 Effective for annual periods beginning on or after 1 January 2014.

Tianfa Equipment has not early adopted these new and revised standards, amendments or interpretation in the preparation of the Financial Information.

The directors of Tianfa Equipment anticipate that the application of these new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of Tianfa Equipment.

Significant accounting policies

The principal accounting policies are set out below.

(a) Segment reporting

It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as the board of directors that makes strategic decisions.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of Tianfa Equipment are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi, which is the same as the functional currency of Tianfa Equipment.

(ii) Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, from the retranslation of non-monetary items denominated in foreign currencies at the rates prevailing on the date when fair value was determined, and from the retranslation at year-end/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

(c) Property, plant and equipment

Buildings comprise mainly factory and office premises. All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Tianfa Equipment and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance expenses are charged in the statement of comprehensive income during the financial period in which they are incurred.

No depreciation is provided for construction in progress until construction is completed and ready for intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(e)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of comprehensive income.

(d) Land use rights

When a lease includes both land and building elements, Tianfa Equipment assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to Tianfa Equipment, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the balance sheet and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(e) Impairment of non-financial assets

Assets that do not have an indefinite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e. cash generating unit, "CGU"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date and reverse to profit or loss.

(f) Financial assets

Tianfa Equipment's financial assets are classified as financial assets at fair value through profit or loss and loans and receivables.

Regular purchases and sales of financial assets are recognized on trade date when Tianfa Equipment commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Tianfa Equipment has transferred substantially all risks and rewards of ownership.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term.

Assets in this category are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the statement of comprehensive income in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of other income when Tianfa Equipment's right to receive payments is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with expected or actual maturities greater than twelve months after the balance sheet date which are classified as non-current assets.

Loans and receivable are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, loans and receivables (including trade and other receivables, notes receivable, amounts due from the Tianjin Benefo Group, restricted bank balances and cash and cash equivalents) are carried at amortized cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or a financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Tianfa Equipment's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset carried at amortized cost is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises materials, direct labour and an appropriate portion of production overheads calculated on a weighted average basis. Net realizable value is determined on the basis of anticipated sales proceed less estimated cost to completion and selling expenses.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(i) Registered capital

Registered capital is classified as equity. Equity instruments issued by Tianfa Equipment are recorded at the proceeds received, net of direct issue costs.

(j) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Tianfa Equipment has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(k) Trade payables, notes payable, other payables and amounts due to the Tianjin Benefo Group

These amounts are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Tianfa Equipment derecognizes financial liabilities when, and only when, Tianfa Equipment's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(l) Current and deferred income tax

The tax expense for the year/period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where Tianfa Equipment operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(m) Employee benefits

Employees of Tianfa Equipment in the PRC are members of state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. Tianfa Equipment's obligation is to make the required contributions under the scheme. The scheme is defined contribution plan. All these contributions are based on a certain percentage of the staff's salary and are charged to the statement of comprehensive income as incurred.

(n) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of Tianfa Equipment's activities. Revenue is shown net of value-added tax, business tax, returns and discounts. Revenue and other income is recognized as follows:

(i) Revenue from machine construction contracts is recognized as the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date bear to estimated total costs.

(ii) Revenue from service rendered is recognized when services are provided.

(iii) Interest income is accrued on a time-proportion basis using the effective interest method.

(o) Machine construction contracts

Where the outcome of a machine construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a machine construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheets, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheets under trade receivables.

(p) Government grants

Government grants are not recognized until there is reasonable assurance that the Tianfa Equipment will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Tianfa Equipment recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred income in the balance sheets and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Tianfa Equipment with no future related costs are recognized in profit or loss in the period in which they become receivable.

(q) Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(s) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(t) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Tianfa Equipment. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

Tianfa Equipment's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit and counterparty risk and liquidity risk. Tianfa Equipment's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance by actively managing debt level and cash flow in order to maintain a strong balance sheet and to minimize refinancing and liquidity risks by attaining healthy debt repayment capacity, appropriate maturity profile and availability of banking facilities. Tianfa Equipment adheres to a policy of financial prudence and did not use any derivative financial instruments or structured financial products during the Relevant Period.

(a) Market risk

Interest rate risk

Other than bank balances and deposits specified in Note 21 (the "Interest Bearing Assets"), Tianfa Equipment has no other significant Interest Bearing Assets.

Tianfa Equipment is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances and deposits.

Tianfa Equipment's interest rate risk also arises from bank borrowings (the "Interest Bearing Liabilities") set out in Note 26. The Tianfa Equipment's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing rate quoted by the People's Bank of China arising from the Tianfa Equipment's bank balances and bank borrowings.

Borrowings issued at variable rates expose Tianfa Equipment to cash flow interest rate risk. Borrowings issued at fixed rates expose Tianfa Equipment to fair value interest rate risk. Tianfa Equipment's policy is to maintain a mixed portfolio of borrowings subject to variable and fixed interest rates. Tianfa Equipment also analyses its interest rate exposure periodically by considering refinancing, renewal of existing positions and alternative financing. Tianfa Equipment's Interest Bearing Liabilities include borrowings at variable rates and fixed rates as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings at variable rates	50,000	50,000	50,000	50,000
Borrowings at fixed rates	60,000	60,000	56,000	56,000
	110,000	110,000	106,000	106,000

If interest rate had been 25 basis points higher/lower for bank balances and deposits and with all other variables held constant, Tianfa Equipment's loss for the years ended 31 December 2009 and 2010 would decrease/increase by RMB262,000 and RMB348,000 respectively and Tianfa Equipment's profit for the year ended 31 December 2011 and for the period ended 30 June 2012 would increase/decrease by RMB202,000 and RMB129,000 respectively.

If interest rate had been 25 basis points higher/lower for bank borrowings and with all other variables held constant, Tianfa Equipment's loss for the year ended 31 December 2009 and 2010 would increase/decrease by RMB106,000 and RMB106,000 respectively and Tianfa Equipment's profit for the year ended 31 December 2011 and the period ended 30 June 2012 would decrease/increase by RMB106,000 and RMB53,000 respectively.

Tianfa Equipment has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Credit and counterparty risk

Credit risk mainly arises from bank deposits maintained with banks and other financial institutions, as well as credit exposures to customers, the Tianjin Benefo Group, outstanding trade receivables balance and other debtors. The carrying amounts of these balances substantially represent Tianfa Equipment's maximum exposure to credit and counterparty risk as at the end of each reporting period.

A significant portion of Tianfa Equipment's bank deposits are placed with state-owned banks. The directors of Tianfa Equipment consider that no impairment allowance is necessary in respect of this balance as there has not been a significant change in credit quality of the counter-party.

Tianfa Equipment has policies in place to ensure that provision of services are made to customers with an appropriate credit history and Tianfa Equipment performs periodic credit evaluations of its customers. According to Tianfa Equipment's historical experience, the irrecoverable trade and other receivables do not exceed the recorded allowances and the directors of Tianfa Equipment are of the opinion that adequate provision for uncollectible accounts receivable has been made in the Financial Information.

(c) Liquidity risk

Tianfa Equipment adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash and having funding through an adequate amount of committed credit facilities. Tianfa Equipment aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of Tianfa Equipment's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

Tianfa Equipment's financial liabilities will be settled within one year based on the remaining period at the balance sheet date to the contractual maturity date.

Capital risk management

Tianfa Equipment's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as equity attributable to the owners of Tianfa Equipment as shown in the balance sheet.

In order to maintain or adjust the capital structure, Tianfa Equipment may adjust the amount of dividends paid to stakeholders, return capital to stakeholders or sell assets to reduce debt. Tianfa Equipment's policy was unchanged throughout the Relevant Period.

The categories of financial instruments of Tianfa Equipment are as follows:

Categories of financial instruments

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	392,581	386,243	377,921	400,940
Financial assets at fair value through profit or loss — held for trading	276	295	18,239	495
	392,857	386,538	396,160	401,435
Financial liabilities				
Financial liabilities at amortized cost	275,735	394,575	385,910	480,987

Fair value estimation

The determination of the fair value of the financial instruments of the Group are as follows:

(i) The fair value of unlisted investments, i.e. financial assets at fair value through profit or loss is determined by reference to the net assets values of the underlying investments quoted by the relevant investment trust or securities companies. They are grouped into Level 2 which fair value measurements were those derived from inputs other than quoted prices that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

(ii) The fair values of cash and bank deposits, trade receivables, notes receivable, other receivables, trade payables, notes payable, other payable, current bank borrowings and balances with the Tianjin Benefo Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and considered to be approximate their carrying amount due to the short-term maturities of these assets and liabilities.

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the results and the carrying amounts of assets and liabilities of Tianfa Equipment are discussed below.

(a) Machine construction contracts

Tianfa Equipment recognizes contract revenue, profit and estimated loss of machine construction contracts according to the management's estimation of the final outcome of the projects as well as the percentage of completion of machine construction works. Notwithstanding that management closely reviews and revises the estimates of both contract revenue and costs for the machine construction contracts according to the contract progresses, the actual outcome of the contracts in terms of their total revenue and costs may be higher or lower than the estimates and this will affect the amount of revenue and profit recognized in subsequent periods.

(b) Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of Tianfa Equipment is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Impairment is made based on the estimation of the future cash flow discounted at the original effective rate to calculate the present value.

5. SEGMENT INFORMATION

An analysis of Tianfa Equipment's revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Machine construction contracts	338,977	468,253	485,350	227,283	279,452
Service fee income	5,790	3,057	1,950	1,641	1,918
	344,767	471,310	487,300	228,924	281,370

As Tianfa Equipment derives majority of its revenue from the manufacture and sale of machineries and provision of service in the PRC, the chief operating decision maker of Tianfa Equipment has determined that, for the purpose of resources allocation and performance evaluation, the entire Tianfa Equipment is a single operating and reportable segment.

The chief operating decision maker monitors the revenue, result, assets and liabilities of its business unit as a whole based on and monthly management accounts which are substantially in conformity with HKFRSs and considers the segment assets and segment liabilities of Tianfa Equipment included all assets and liabilities as stated in the balance sheets respectively, and considers the segment revenue and segment result of Tianfa Equipment represented revenue and profit for the year/period as stated in the statements of comprehensive income respectively.

Furthermore, as all the non-current assets of Tianfa Equipment are physically located in the PRC, no geographical information is presented.

6. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Government grants *(note)*	1,201	3,215	319	—	277
Amortization of deferred income	119	512	929	464	464
Interest income	1,865	1,618	2,233	735	1,740
Sales of scrap materials	4,107	6,167	4,390	2,293	2,072
Other compensations	8	21	6	1	4
Sundries	2,350	510	455	306	89
	9,650	12,043	8,332	3,799	4,646

note: During the Relevant Period, the government grants mainly represent subsidies received for research and development projects.

7. OTHER GAINS AND LOSSES, NET

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net (loss) gain on disposal of property, plant and equipment	(14)	(127)	(71)	(93)	3
Fair value gain (loss) on financial assets held for trading	71	19	(56)	—	6
	57	(108)	(127)	(93)	9

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest expenses on bank borrowings repayable within five years	3,778	2,843	3,441	1,564	2,441

9. TAX (EXPENSE) CREDIT

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current taxation					
PRC enterprise income tax ("PRC EIT")	—	—	—	—	—
Deferred taxation *(Note 15)*					
Current year	(1,295)	2,302	(1,841)	(125)	(2,228)
	(1,295)	2,302	(1,841)	(125)	(2,228)

Throughout the Relevant Period, Tianfa Equipment was subject to a preferential PRC EIT rate of 15% starting from 24 November 2008 because it was qualified as a high-technology enterprise. Prior to this preferential tax arrangement, Tianfa Equipment was subject to PRC EIT at the statutory tax rate of 25%.

The tax charge for the year/period can be reconciled to the (loss) profit before tax per the statement of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before tax	(33,679)	(7,139)	23,840	5,340	21,204
Calculated at applicable tax rate of 15%	(5,052)	(1,071)	3,576	801	3,180
Income not subject to taxation	(10)	(3)	—	—	—
Research and development expense entitled to additional tax deduction	(1,705)	(1,420)	(1,907)	(779)	(995)
Expenses not deductible for taxation purposes	139	192	172	103	43
Tax losses not recognized	7,923	—	—	—	—
Tax expense (credit)	1,295	(2,302)	1,841	125	2,228

10. (LOSS) PROFIT FOR THE YEAR/PERIOD

(Loss) profit for the year/period is arrived at after charging (crediting):

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Auditor's remuneration	84	44	44	22	35
Amortization of land use right	1,438	1,438	1,438	719	719
Depreciation					
— charged to cost of sales	11,241	12,444	12,167	6,363	6,429
— charged to administrative expenses	1,287	1,869	1,836	940	972
Provision for impairment of machine construction contracts	10,217	11,501	—	—	3,504
Operating lease rentals on rented premises	2,010	2,010	2,073	1,005	930
Employee benefit expense *(notes (a) & (b))*					
— wages, salaries, bonus and social security costs	20,106	22,264	26,221	13,283	14,617
Provision (reversal) for impairment of					
— trade receivables	1,603	(279)	589	597	(40)
— other receivables, deposits and prepayments	(926)	(2,095)	(41)	(16)	(12)

notes:

(a) Directors' remuneration

The remuneration of each Director during the Relevant Periods were as follows:

	Sun Jiang	**Guan Chuan Ming**	**Wang Xue Lei**	**Wei Li Qing**	**Pang Guo Sheng**	**Zhao Jiu Zhan**	**Xu Ke Zhi**	**Hou Hai Ying**	**Wu Shu Yuan**	**Zhu Shu Wen**	**Ge Lun Cian**	**Zhao Yun**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (i))	*(note (ii))*	*(note (ii) & (iii))*	*(note (ii) & (iii))*	*(note (ii))*	*(note (iv))*	*(note (v))*	*(note (vi))*	*(note (vi))*	*(note (vi))*	*(note (vi))*	
For the year ended 31 December 2009													
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	205	278	—	—	—	—	—	—	—	—	—	176	659
Total	205	278	—	—	—	—	—	—	—	—	—	176	659
For the year ended 31 December 2010													
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	463	459	—	—	—	—	—	—	—	—	—	265	1,187
Total	463	459	—	—	—	—	—	—	—	—	—	265	1,187
For the year ended 31 December 2011													
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	564	503	—	—	—	—	72	35	—	—	—	—	1,174
Total	564	503	—	—	—	—	72	35	—	—	—	—	1,174
For the six months ended 30 June 2011 (unaudited)													
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	404	503	—	—	—	—	—	—	—	—	—	—	907
Total	404	503	—	—	—	—	—	—	—	—	—	—	907
For the six months ended 30 June 2012													
Fees	—	—	—	—	—	—	—	—	—	—	—	—	—
Salaries and other benefits	435	—	—	—	—	—	118	84	—	—	—	—	637
Total	435	—	—	—	—	—	118	84	—	—	—	—	637

notes:

(i) Resigned on 1 July 2011.

(ii) Appointed on 16 September 2010.

(iii) Resigned on 22 September 2011.

(iv) Appointed on 1 July 2011.

(v) Appointed on 22 September 2011.

(vi) Resigned on 16 September 2010.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in Tianfa Equipment, two are directors over the Relevant Period and their emoluments are shown in Note 10(a).

The emoluments of the remaining individuals for the Relevant Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fees	—	—	—	—	—
Salaries, bonus and other benefits	779	1,032	946	790	579
	779	1,032	946	790	579

The emoluments of the remaining individuals were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011** (unaudited)	**2012**
Emoluments band					
HK$ nil to HK$1,000,000	3	3	3	3	3

11. DIVIDENDS

A final dividend of RMB3,559,000 for the year of 2010 was paid and recognized as distribution during the year ended 31 December 2011. Other than that, no dividend was paid or proposed during the Relevant Period.

12. (LOSS) EARNINGS PER SHARE

(Loss) earnings per share is not presented as it is not considered meaningful having regard to the purpose of this Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office and other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2009	28,941	132,092	2,254	6,125	28,577	197,989
Additions	—	173	1,450	955	11,184	13,762
Transfer	—	21,114	—	—	(21,114)	—
Disposals	—	—	(298)	(65)	—	(363)
At 31 December 2009	28,941	153,379	3,406	7,015	18,647	211,388
Additions	—	408	519	1,146	1,594	3,667
Transfer	8,469	3,949	196	—	(12,614)	—
Disposals	—	(341)	(391)	(46)	—	(778)
At 31 December 2010	37,410	157,395	3,730	8,115	7,627	214,277
Additions	1,887	2,935	240	923	1,390	7,375
Transfer	—	54	651	187	(892)	—
Disposals	—	(327)	(1,043)	(301)	—	(1,671)
At 31 December 2011	39,297	160,057	3,578	8,924	8,125	219,981
Additions	59	393	—	413	1,591	2,456
Disposals	—	—	—	(15)	—	(15)
At 30 June 2012	39,356	160,450	3,578	9,322	9,716	222,422
ACCUMULATED DEPRECIATION						
At 1 January 2009	3,078	38,474	495	1,741	—	43,788
Provided for the year	1,534	9,981	258	755	—	12,528
Disposals	—	—	(192)	—	—	(192)
At 31 December 2009	4,612	48,455	561	2,496	—	56,124
Provided for the year	1,581	10,320	510	1,902	—	14,313
Disposals	—	(39)	(265)	(40)	—	(344)
At 31 December 2010	6,193	58,736	806	4,358	—	70,093
Provided for the year	1,785	10,907	414	897	—	14,003
Disposals	—	(115)	(339)	(294)	—	(748)
At 31 December 2011	7,978	69,528	881	4,961	—	83,348
Provided for the period	1,215	5,487	216	483	—	7,401
Disposals	—	—	—	(14)	—	(14)
At 30 June 2012	9,193	75,015	1,097	5,430	—	90,735
CARRYING VALUE						
At 31 December 2009	24,329	104,924	2,845	4,519	18,647	155,264
At 31 December 2010	31,217	98,659	2,924	3,757	7,627	144,184
At 31 December 2011	31,319	90,529	2,697	3,963	8,125	136,633
At 30 June 2012	30,163	85,435	2,481	3,892	9,716	131,687

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	25 years
Plant and machinery	5–14 years
Motor vehicles	5–10 years
Office and other equipment	5–10 years

Certain buildings with an aggregate carrying value of approximately RMB19,554,000, RMB27,079,000, RMB25,931,000 and RMB25,357,000 respectively at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012 were pledged by Tianfa Equipment to secure its bank borrowings.

14. LAND USE RIGHT

This represents a prepaid operating lease payment for land held on a lease of 47 years in the PRC.

The following are the movements during the Relevant Period:

	RMB'000
COST	
At 1 January 2009, 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012	69,409
AMORTIZATION	
At 1 January 2009	1,919
Provided for the year	1,438
At 31 December 2009	3,357
Provided for the year	1,438
At 31 December 2010	4,795
Provided for the year	1,438
At 31 December 2011	6,233
Provided for the period	719
At 30 June 2012	6,952
CARRYING VALUE	
At 31 December 2009	66,052
At 31 December 2010	64,614
At 31 December 2011	63,176
At 31 June 2012	62,457

The entire land use right was pledged by Tianfa Equipment to secure its bank borrowings.

15. DEFERRED TAXATION

The following are the major deferred tax assets recognized and movements thereon during the Relevant Period:

	Tax loss	Provision for impairment of construction contracts	Provision for impairment of trade and other receivables	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	—	4,599	589	525	5,713
Deferred tax (charged) credited to statement of comprehensive income	—	(1,379)	102	(18)	(1,295)
At 31 December 2009	—	3,220	691	507	4,418
Deferred tax credited (charged) to statement of comprehensive income	1,901	(216)	(356)	973	2,302
At 31 December 2010	1,901	3,004	335	1,480	6,720
Deferred tax credited (charged) to statement of comprehensive income	669	(2,453)	82	(139)	(1,841)
At 31 December 2011	2,570	551	417	1,341	4,879
Deferred tax (charged) credited to statement of comprehensive income	(2,184)	34	(8)	(70)	(2,228)
At 30 June 2012	386	585	409	1,271	2,651

At the end of the Relevant Period, Tianfa Equipment had unused tax losses available for offset against future profits as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unused tax losses	52,822	65,495	69,955	55,395

Deferred tax asset has been recognized in respect of tax losses of approximately RMB12,673,000, RMB17,133,000 and RMB2,573,000 at 31 December 2010, 2011 and 30 June 2012 respectively. No deferred tax is recognized in respect of the remaining tax losses of RMB52,822,000, RMB52,822,000, RMB52,822,000 and RMB52,822,000 at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively, due to unpredictability of future profit stream. The tax losses can be carried forward for 5 years from the year they arise.

16. INVENTORIES

The inventories held by Tianfa Equipment represent the materials and spare parts held by the machine construction contracts.

17. TRADE RECEIVABLES, NOTES RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

		At 31 December			At 30 June
	notes	2009	2010	2011	2012
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables					
Fully performing	(a)	100,303	72,096	87,739	36,409
Past due but not impaired	(b)	119,153	119,815	162,409	209,801
Impaired	(c)	2,217	1,938	2,527	2,487
Trade receivables — gross		221,673	193,849	252,675	248,697
Less: provision for impairment		(2,217)	(1,938)	(2,527)	(2,487)
Trade receivables — net		219,456	191,911	250,148	246,210
Notes receivable		3,674	5,230	8,819	9,648
	(e)	223,130	197,141	258,967	255,858

notes:

(a) Tianfa Equipment has a credit policy which is dependent on the practice of the market and the business. In general, a credit period of 90 days is granted to corporate customers. For those fully performing are trade receivables with no history of default payment.

(b) Trade receivables that were past due but not impaired are related to a wide range of customers, and management believes that no impairment provision is necessary as there has not been a significant change in the credit quality and the balances are still considered fully recoverable. The ageing analysis, based on invoice date, of these trade receivables is as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
91 to 180 days	2,476	3,423	21,842	8,120
181 days to 1 year	60,670	1,103	26,349	58,119
1 to 2 years	18,459	71,100	37,009	85,240
Over 2 years	37,548	44,189	77,209	58,322
	119,153	119,815	162,409	209,801

(c) As at 31 December 2009, 2010 and 2011 and 30 June 2012, trade receivables of RMB2,217,000, RMB1,938,000, RMB2,527,000 and RMB2,487,000 respectively were impaired. The age and settlement record of these receivables were considered for the purpose of impairment review.

Movements on the provision for impairment of trade receivables are as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	614	2,217	1,938	2,527
Recognized (reversed) during the year/period	1,603	(279)	589	(40)
At end of the year/period	2,217	1,938	2,527	2,487

In additions, movements on the provision for impairment of other receivables are as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	3,314	2,388	293	252
Reversed during the year/period	(926)	(2,095)	(41)	(12)
At end of the year/period	2,388	293	252	240

The creation and release of provision for impaired trade receivables and other receivables are included in other operating expenses in the statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash as the counterparties are mainly in financial difficulties.

(d) The ageing analysis based on invoice date of Tianfa Equipment's trade and notes receivables (net of provisions) is as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	67,431	60,877	47,143	30,330
91 to 180 days	5,800	8,143	30,163	18,324
181 days to 1 year	93,892	12,832	67,443	63,642
1 to 2 years	18,459	71,100	37,009	85,240
Over 2 years	37,548	44,189	77,209	58,322
	223,130	197,141	258,967	255,858

(e) The carrying amounts of trade receivables, notes receivable, other receivables and deposits approximate their fair value and are mainly denominated in Renminbi. Tianfa Equipment has no significant concentrations of credit risk in relation to these receivables and does not hold any collateral as security.

18. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracts in progress at the end of the reporting period				
Contract costs incurred	1,411,367	1,396,929	1,503,010	1,715,767
Add: recognized profits less recognized losses	297,451	323,449	366,952	435,528
Less: progress billings	(1,664,830)	(1,557,675)	(1,680,801)	(1,897,438)
	43,988	162,703	189,161	253,857
Analyzed for reporting purposes as:				
Amounts due from contract customers included in current assets	185,270	311,842	293,768	373,152
Amounts due to contract customers included in current liabilities	(141,282)	(149,139)	(104,607)	(119,295)
	43,988	162,703	189,161	253,857

At 31 December 2009, 2010 and 2011 and 30 June 2012, retentions held by customers for contract works amounted to RMB77,015,000, RMB109,372,000, RMB116,557,000 and RMB100,318,000 respectively were included in trade receivables.

At 31 December 2009, 2010, 2011 and 30 June 2012, advances received from customers for contracts entered but not yet commenced were RMB44,691,000, RMB43,605,000, RMB58,364,000 and RMB17,226,000 respectively, and were included in other payables and accruals.

19. AMOUNTS DUE FROM (TO) THE TIANJIN BENEFO GROUP

	At 1 January	At 31 December			At 30 June	Maximum amount outstanding during the year/period			30 June
	2009	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from the Tianjin Benefo Group	3,423	15,023	2,228	2,278	2,228	27,965	21,037	2,573	2,379
Amounts due to the Tianjin Benefo Group		9,407	26,635	33,160	30,824				

Note:

The following balances included in the amounts due to the Tianjin Benefo Group are trade in nature and aged within 90 days based on invoice date:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to Tianjin Benefo Group	4,007	21,235	17,760	15,424

The remaining balances are unsecured, interest free and have no fixed repayment term and mainly denominated in Renminbi.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment held for trading				
Unlisted investment funds in the PRC	276	295	18,239	495

The fair value of unlisted fund is based on their net asset values quoted by the relevant investment trust or securities companies. The balances are denominated in Renminbi.

21. RESTRICTED BANK BALANCES/CASH AND CASH EQUIVALENTS

The bank balances of Tianfa Equipment carry interest at market rates as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Range of interest rate per annum	0.36%	0.36%	0.36% to 0.50%	0.50% to 1.35%

The restricted bank balances are bank deposits pledged against notes payable issued by the respective banks. The restricted bank balances at the end of each reporting period carried the same interest rates as the other non-restricted bank balances.

22. REGISTERED CAPITAL

	RMB'000
At 1 January 2009, 31 December 2009, 2010 and 2011, and 30 June 2012	180,598

23. RESERVES

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2009	35,968	3,839	188,327	228,134
Loss and total comprehensive expense for the year	—	—	(34,974)	(34,974)
At 31 December 2009	35,968	3,839	153,353	193,160
Loss and total comprehensive expense for the year	—	—	(4,837)	(4,837)
At 31 December 2010	35,968	3,839	148,516	188,323
Profit and total comprehensive income for the year	—	—	21,999	21,999
Dividend paid *(Note 11)*	—	—	(3,559)	(3,559)
Transfer between reserves	—	2,200	(2,200)	—
At 31 December 2011	35,968	6,039	164,756	206,763
Profit and total comprehensive income for the period	—	—	18,976	18,976
At 30 June 2012	35,968	6,039	183,732	225,739
At 1 January 2011 (audited)	35,968	3,839	148,516	188,323
Profit and total comprehensive income for the period	—	—	5,215	5,215
Dividend paid *(Note 11)*	—	—	(3,559)	(3,559)
At 30 June 2011 (unaudited)	35,968	3,839	150,172	189,979

Statutory reserves are reserves required by the relevant PRC laws applicable established in PRC and cannot be used for distribution in the form of cash dividends.

According to the articles of association of Tianfa Equipment, which is established in the PRC, a percentage of net profit as reported in the PRC statutory accounts must be appropriated to reserve fund and enterprise expansion reserve, both of which are classified under statutory reserves. The percentage of appropriation is determined at the discretion of the board of directors of Tianfa Equipment. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

24. DEFERRED INCOME

	RMB'000
At 1 January 2009	3,500
Released to profit or loss	(119)
At 31 December 2009	3,381
Additions	7,000
Released to profit or loss	(512)
At 31 December 2010	9,869
Released to profit or loss	(929)
At 31 December 2011	8,940
Released to profit or loss	(464)
At 30 June 2012	8,476

This represents the government subsidy received by Tianfa Equipment towards the cost of construction of its manufacturing plant.

The amount is transferred to income over the useful lives of the relevant assets.

25. TRADE PAYABLES, NOTES PAYABLE, OTHER PAYABLES AND ACCRUALS

The ageing analysis of Tianfa Equipment's trade and notes payables, based on invoice date, is as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	62,047	59,237	67,800	139,091
91 to 180 days	18,573	85,851	63,158	69,619
181 days to 1 year	17,181	60,782	50,022	68,707
1 to 2 years	3,374	459	23,737	9,167
Over 2 years	2,767	3,073	3,259	7,724
	103,942	209,402	207,976	294,308

The carrying amounts of trade payables approximate their fair value and are mainly denominated in Renminbi.

The other payables and accruals mainly consist of receipts in advance, value added tax payables and accruals.

26. BANK BORROWINGS

As at 31 December 2009, 2010 and 2011 and 30 June 2012, bank borrowings of RMB90,000,000, RMB90,000,000, RMB86,000,000 and RMB86,000,000 respectively was secured by land use right and buildings during the Relevant Period and disclosed in Notes 14 and 13 respectively. The remaining bank borrowings were guaranteed by Tianjin Benefo.

The carrying amounts of all borrowings approximate their fair values.

All the bank borrowings are denominated in Renminbi with the annual rates ranging as follow:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
Range of interest rates per annum	2.43%	2.43% to 2.68%	3.68% to 6.56%	3.68% to 6.56%

27. OPERATING LEASES

Tianfa Equipment as a lessee

At the end of each reporting period, Tianfa Equipment had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	At 31 December			At 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than one year	—	1,896	2,474	1,170

Operating lease payments represent rentals payable by Tianfa Equipment for certain of its factory and office premises. Leases are negotiated for an average term of one to two years and rentals are fixed at the date of signing of lease agreements.

28. NOTES TO THE STATEMENTS OF CASH FLOWS

Reconciliation of operating profit to net cash generated from operation:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before tax	(33,679)	(7,139)	23,840	5,340	21,204
Adjustments for:					
Interest income	(1,865)	(1,618)	(2,233)	(548)	(1,740)
Finance costs	3,778	2,843	3,441	1,564	2,441
Depreciation	12,528	14,313	14,003	7,303	7,401
Amortization of deferred income	(119)	(512)	(929)	(464)	(464)
Amortization of land use right	1,438	1,438	1,438	719	719
Net loss (gain) on disposal of property, plant and equipment	14	127	71	93	(3)
Fair value changes of financial assets at fair value through profit or loss	(71)	(19)	56	—	(6)
Provision (reversal) for impairment of trade receivables	1,603	(279)	589	597	(40)
Reversal for impairment of other receivables, deposits and prepayments	(926)	(2,095)	(41)	(16)	(12)
Provision for impairment of machine construction contracts	10,217	11,501	—	—	3,504
Operating cash flows before movements in working capital	(7,082)	18,560	40,235	14,588	33,004
(Increase) decrease in inventories	(13,123)	(8,745)	9,009	(4,004)	(15,961)
(Increase) decrease in trade receivables	(103,131)	27,824	(58,826)	(59,683)	3,978
(Increase) decrease in notes receivable	(1,874)	(1,556)	(3,589)	3,480	(829)
(Increase) decrease in other receivables, deposits and prepayments	(17,509)	5,576	(2,344)	(690)	7,530
Decrease (increase) in amounts due from customers for contract work	140,663	(138,073)	18,074	62,615	(82,888)
(Increase) decrease in amounts due from the Tianjin Benefo Group	(11,600)	12,795	(50)	—	50
(Increase) decrease in financial assets at fair value through profit or loss	—	—	(18,000)	(20,000)	17,750
Increase (decrease) in trade payables	10,621	52,731	42,848	(10,262)	28,587
Increase (decrease) in notes payable	—	52,729	(44,274)	(40,219)	57,745
Increase (decrease) in other payables and accruals	14,827	(4,934)	4,995	112,372	(30,057)
Increase (decrease) in amounts due to customers for contract work	66,128	7,857	(44,532)	(116,356)	14,688
(Decrease) increase in amounts due to the Tianjin Benefo Group	(3,489)	17,228	(3,475)	(6,836)	(2,336)
	74,431	41,992	(59,929)	(64,995)	31,261

29. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Transactions

During the Relevant Period, Tianfa Equipment entered into the following significant transactions with the Tianjin Benefo Group:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of materials	1,428	54,331	11,020	3,398	5,707
Rental for factory and office premises *(note)*	2,010	2,010	2,073	1,005	930
	3,438	56,341	13,093	4,403	6,637

note: The related operating lease commitment on the lease of the factory and office premises are set out in Note 27.

(b) Balances

Details of balances with the Tianjin Benefo Group are set out in Note 19.

(c) Compensation of key management personnel

The remuneration of Tianfa Equipment's directors and other members of key management personnel during the Relevant Period was as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other emoluments	1,613	2,479	2,743	1,193	862

The remuneration of Tianfa Equipment's directors and key executives is determined with reference to the performance of individuals and market trends.

(d) Guarantees

As set out in Note 26, certain bank borrowings were guaranteed by Tianjin Benefo during the Relevant Period.

(e) Transactions/balances with other state-owned entities in the PRC

Tianfa Equipment operates in an economic environment currently predominated by owned directly or indirectly owned or controlled by the PRC government ("state-owned entities"). In addition, Tianfa Equipment itself is part of the Tianjin Benefo Group which is controlled by the PRC government. Apart from the transactions with Tianjin Benefo and fellow subsidiaries disclosed above, Tianfa Equipment also conducts business with other state-owned entities. Tianfa Equipment's directors consider those state-owned entities are independent third parties so far as Tianfa Equipment's business transactions with them are concerned. Tianfa Equipment's directors are of the opinion that transactions with other state-owned entities are not significant to Tianfa Equipment's operations.

In addition, Tianfa Equipment has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-owned entities in its ordinary course of business. In view of the nature of those banking transactions, Tianfa Equipment's directors are of the opinion that separate disclosure would not be meaningful.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Tianfa Equipment has been prepared in respect of any period subsequent to 30 June 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report received from Deloitte Touche Tohmatsu, an independent reporting accountant, prepared for the purpose of incorporation in this circular.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

TO THE DIRECTORS OF TIANJIN DEVELOPMENT HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Tianjin Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how its acquisition of (i) 56.62% equity interest in Tianjin Tianduan Press Co., Ltd. and (ii) 66% equity interest in Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. might have affected the financial information of the Group presented, for inclusion in Appendix IV to the circular dated 22 November 2012 issued by the Company (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in page 123 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2012 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group so far as such policies related to the transactions; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 22 November 2012

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated balance sheet of the Enlarged Group (the "Unaudited Pro Forma Consolidated Balance Sheet") has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effects of the acquisition of (i) 56.62% equity interest in Tianduan and (ii) 66% equity interest in Tianfa Equipment (the "Acquisitions") to the financial position of the Group as if the Acquisitions had been completed on 30 June 2012.

The Unaudited Pro Forma Consolidated Balance Sheet is prepared based on (a) the unaudited condensed consolidated balance sheet of the Group as at 30 June 2012 which has been extracted from the Group's interim report for the six months period ended 30 June 2012; and (b) the audited consolidated balance sheet of the Tianduan Group and the audited balance sheet of Tianfa Equipment, both as at 30 June 2012, as extracted from the respective accountants' reports thereon set out in Appendices II and III to this Circular, after making pro forma adjustments that are (i) directly attributable to the Acquisitions; and (ii) factually supportable.

The Unaudited Pro Forma Consolidated Balance Sheet has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Consolidated Balance Sheet does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisitions been completed at the date stated, nor does it purport to predict the financial position of the Enlarged Group at 30 June 2012 or at any future dates.

B. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

	The Group as at 30 June 2012 HK$'000	The Tianduan Group as at 30 June 2012 RMB'000	Tianfa Equipment as at 30 June 2012 RMB'000	Sub-total RMB'000	Sub-total HK$'000 Note (a)	Pro forma adjustments HK$'000	Notes	The Enlarged Group HK$'000
ASSETS								
Non-current assets								
Property, plant and equipment	1,772,157	248,613	131,687	380,300	466,626	—		**2,238,783**
Land use rights	273,294	106,654	62,457	169,111	207,498	—		**480,792**
Investment properties	195,328	—	—	—	—	—		**195,328**
Interest in associates	5,466,695	—	—	—	—	(318,772)	(b)	**5,147,923**
Interest in jointly controlled entities	16,770	—	—	—	—	—		**16,770**
Deferred tax assets	99,876	3,363	2,651	6,014	7,379	—		**107,255**
Available-for-sale financial assets	213,483	—	—	—	—	—		**213,483**
Deposit paid for acquisition of property, plant and equipment	5,767	—	—	—	—	—		**5,767**
Goodwill	—	1,250	—	1,250	1,534	263,643	(c)	**265,177**
	8,043,370	**359,880**	**196,795**	**556,675**	**683,037**	**(55,129)**		**8,671,278**
Current assets								
Inventories	2,420	74,585	52,716	127,301	156,198	—		**158,618**
Amounts due from jointly controlled entities	14,508	—	—	—	—	—		**14,508**
Amount due from ultimate holding company	1,249	—	—	—	—	—		**1,249**
Amounts due from related companies	16,588	10,587	2,228	12,815	15,724	—		**32,312**
Amounts due from customers for contract work	—	250,298	373,152	623,450	764,969	—		**764,969**
Trade receivables	569,842	99,572	246,210	345,782	424,272	—		**994,114**
Notes receivable	—	114,934	9,648	124,582	152,861	—		**152,861**
Other receivables, deposits and prepayments	289,019	14,298	49,248	63,546	77,971	—		**366,990**
Financial assets at fair value through profit or loss	69,689	—	495	495	607	—		**70,296**
Entrusted deposits	1,873,431	—	—	—	—	—		**1,873,431**
Restricted bank balance	7,730	58,924	66,911	125,835	154,399	—		**162,129**
Time deposits with maturity over three months	684,565	—	—	—	—	—		**684,565**
Cash and cash equivalents	3,102,668	164,811	54,374	219,185	268,939	(943,499)	(d)	**2,428,108**
	6,631,709	**788,009**	**854,982**	**1,642,991**	**2,015,940**	**(943,499)**		**7,704,150**
Total assets	**14,675,079**	**1,147,889**	**1,051,777**	**2,199,666**	**2,698,977**	**(998,628)**		**16,375,428**

	The Group as at 30 June 2012 HK$'000	The Tianduan Group as at 30 June 2012 RMB'000	Tianfa Equipment as at 30 June 2012 RMB'000	Sub-total RMB'000	Sub-total HK$'000 Note (a)	Pro forma adjustments HK$'000	Notes	The Enlarged Group HK$'000
EQUITY								
Owners of the Company								
Share capital	106,747	50,776	180,598	231,374	283,894	(283,894)	(e)	**106,747**
Reserves	9,653,091	519,114	225,739	744,853	913,930	(840,310)	(f)	**9,726,711**
	9,759,838	**569,890**	**406,337**	**976,227**	**1,197,824**	**(1,124,204)**		**9,833,458**
Non-controlling interests	**615,879**	**—**	**—**	**—**	**—**	**154,308**	(g)	**770,187**
Total equity	**10,375,717**	**569,890**	**406,337**	**976,227**	**1,197,824**	**(969,896)**		**10,603,645**
LIABILITIES								
Non-current liabilities								
Bank borrowings	1,990,500	—	—	—	—	—		**1,990,500**
Deferred tax liabilities	81,991	—	—	—	—	—		**81,991**
Deferred income	—	14,941	8,476	23,417	28,732	(28,732)	(c)	**—**
	2,072,491	**14,941**	**8,476**	**23,417**	**28,732**	**(28,732)**		**2,072,491**
Current liabilities								
Trade payables	449,168	321,450	228,108	549,558	674,304	—		**1,123,472**
Notes payable	25,767	90,221	66,200	156,421	191,928	—		**217,695**
Other payables and accruals	984,164	68,380	67,081	135,461	166,211	—		**1,150,375**
Amounts due to related companies	215,685	18,688	30,824	49,512	60,751	—		**276,436**
Amounts due to non-controlling interests	97,771	—	—	—	—	—		**97,771**
Amounts due to customers for contract work	—	55,102	119,295	174,397	213,984	—		**213,984**
Bank borrowings	397,545	—	106,000	106,000	130,061	—		**527,606**
Current tax liabilities	56,771	9,217	19,456	28,673	35,182	—		**91,953**
	2,226,871	**563,058**	**636,964**	**1,200,022**	**1,472,421**	**—**		**3,699,292**
Total liabilities	**4,299,362**	**577,999**	**645,440**	**1,223,439**	**1,501,153**	**(28,732)**		**5,771,783**
Total equity and liabilities	**14,675,079**	**1,147,889**	**1,051,777**	**2,199,666**	**2,698,977**	**(998,628)**		**16,375,428**
Net current assets	**4,404,838**	**224,951**	**218,018**	**442,969**	**543,519**	**(943,499)**		**4,004,858**
Total assets less current liabilities	**12,448,208**	**584,831**	**414,813**	**999,644**	**1,226,556**	**(998,628)**		**12,676,136**

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The balance sheets of the Tianduan Group and Tianfa Equipment as set out in Appendices II and III to this Circular are presented in Renminbi, being their functional currency, which is different from the presentation currency of the Group, i.e. Hong Kong Dollars ("HK$"). The assets and liabilities of the Tianduan Group and Tianfa Equipment have been translated into HK$ at the closing rate of RMB0.815 = HK$1 at 30 June 2012.

(b) Upon completion of the Acquisitions, Tianduan and Tianfa Equipment will become 78.45% and 100% owned subsidiaries of the Company respectively. Accordingly, this represents elimination of 21.83% equity interest in Tianduan and 34% equity interest in Tianfa Equipment which are currently held by the Group as associates at carrying amounts of HK$171,696,000 and HK$147,076,000 respectively as at 30 June 2012.

(c) This represents goodwill arising from the Acquisitions provisionally determined based on the fair value of the identifiable assets and liabilities of the Tianduan Group and Tianfa Equipment. For the purpose of the unaudited pro forma consolidated balance sheet, it was assumed that the carrying amount of the identifiable net tangible assets of the Tianduan Group and Tianfa Equipment as at 30 June 2012 are approximate to the fair values except for deferred income that the fair value of which would be close to zero. The amount of goodwill is subject to changes when the fair value of assets and liabilities of the Tianduan Group and Tianfa Equipment is finalized.

(d) This represents cash consideration of RMB757,541,000 (equivalent to approximately HK$929,499,000) for the Acquisitions expected to be paid out of the Group's internal cash resources and comprises the following:

(i) RMB455,557,000 (equivalent to approximately HK$558,966,000) for the acquisition of 56.62% equity interest in Tianduan; and

(ii) RMB301,984,000 (equivalent to approximately HK$370,533,000) for the acquisition of 66% equity interest in Tianfa Equipment.

Together with the estimated transaction costs of HK$14,000,000 relating to the Acquisitions.

(e) This represents reversal of the registered capital of Tianduan and Tianfa Equipment.

(f) This represents the net effect of (i) reversal of pre-acquisition reserves of HK$913,930,000 attributable to the Tianduan Group and Tianfa Equipment; (ii) recognition of gain of HK$87,620,000 arising on deemed disposal of 21.83% interest in Tianduan and 34% interest in Tianfa Equipment as associates which was calculated as the difference between the carrying value of Tianduan and Tianfa Equipment as stated in note (b) and the fair values of the previously held interests in Tianduan and Tianfa Equipment of HK$215,511,000 and HK$190,881,000 respectively. Such fair values were estimated with reference to the consideration paid for the Acquisitions which was determined by reference to the valuation reports prepared by an independent professional valuer; and (iii) recognition of transaction costs of HK$14,000,000 relating to the Acquisitions as expenses.

(g) This represents 21.55% interest in Tianduan to be held by non-controlling interests upon completion of the Acquisitions, on the basis of proportionate share of the fair value of the Tianduan Group's net assets (being 21.55% of the net asset value of Tianduan at 30 June 2012 of RMB569,890,000 as adjusted for the exclusion of the deferred income and goodwill by adding RMB14,941,000 and deducting RMB1,250,000, which is equivalent to approximately HK$716,050,000). The amount of non-controlling interests is subject to changes when the fair value of assets and liabilities of the Tianduan Group is finalized.

BUSINESS REVIEW

Hydraulic presses

Tianduan was incorporated in 2001 in Tianjin, the PRC, and is principally engaged in the manufacture and sale of presses and mechanical equipment, repair, installation, research and provision of consultation services of presses and wholesale and retail of accessories of presses. The detailed financial information of the Tianduan Group is set out in Appendix II to this circular.

During the financial year ended 31 December 2009, the Tianduan Group recorded revenue of approximately RMB572.0 million and profit of approximately RMB30.1 million.

During the financial year ended 31 December 2010, the Tianduan Group reported revenue of approximately RMB821.1 million and profit of approximately RMB25.7 million, representing an increase of 43.5% and a decrease of 14.6% respectively over the year of 2009. The decline of profit was mainly due to increase of investment in research and development of heavy numerically controlled hydraulic presses.

During the financial year ended 31 December 2011, the Tianduan Group recorded revenue of approximately RMB793.3 million and profit of approximately RMB56.4 million, representing a decrease of 3.4% and an increase of over 100% respectively over the year of 2010. The increase of profit was mainly due to improvement of gross profit margins.

During the six months ended 30 June 2012, the Tianduan Group reported revenue of approximately RMB340.9 million and profit of approximately RMB21.0 million, representing a decrease of 18.7% and 44.5% respectively over the same period of last year. The decrease was mainly due to low orders for Tianduan's products during the first half of 2012. The orders awarded in the third quarter of 2012 compared to those of both first and second quarter in 2012 have been increased.

Hydroelectric equipment

Tianfa Equipment was incorporated in 2001 in Tianjin, the PRC, and is principally engaged in the design, manufacture, sale and provision of consultation services of hydroelectric equipment and large scale pump unit in the PRC. The detailed financial information of Tianfa Equipment is set out in Appendix III to this circular.

During the financial year ended 31 December 2009, Tianfa Equipment recorded revenue of approximately RMB344.8 million and a loss of approximately RMB35.0 million.

During the financial year ended 31 December 2010, Tianfa Equipment reported revenue of approximately RMB471.3 million, representing an increase of 36.7% and a loss of approximately RMB4.8 million was recorded. The decrease of loss as compared to that of last year was mainly attributable to improvement in gross profit margins.

During the financial year ended 31 December 2011, Tianfa Equipment reported revenue of approximately RMB487.3 million, representing an increase of 3.4%. A profit of approximately RMB22.0 million was recorded. The good performance was mainly attributable to the continuing improvement in gross profit margins.

During the six months ended 30 June 2012, Tianfa Equipment recorded revenue of approximately RMB281.4 million and a profit of approximately RMB19.0 million, representing an increase of 22.9% and approximately 2.6 times respectively over the corresponding period of last year. The good performance was mainly attributable to increase of revenue in first half of 2012.

SIGNIFICANT INVESTMENT

Hydraulic presses

During the years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012, the Tianduan Group invested total of approximately RMB265.6 million (including injection by an owner of Tianduan) into property, plant and equipment to expand its manufacturing capacity and upgrade its equipment.

The investments in such fixed assets have enabled the Tianduan Group to have capability to manufacture heavy numerically controlled hydraulic presses which the hydraulic presses industry had developed towards. During the years and period ended on the dates mentioned above, the gross profit margin of the Tianduan Group has been improved, profit after tax has grown steadily and accordingly the competitiveness of the Tianduan Group had been strengthened.

Looking forward, the Tianduan Group is expected to continue to benefit from such investments and achieve steady growth.

Hydroelectric equipment

During the years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012, Tianfa Equipment did not hold any other significant investments.

Looking forward, Tianfa Equipment will focus on its existing business of hydroelectric equipment.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

Hydraulic presses

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, the Tianduan Group's total cash on hand was approximately RMB119.9 million, RMB87.2 million, RMB161.5 million and RMB223.7 million respectively. As at 31 December 2009 and 31 December 2010, the bank borrowings stood at RMB43.2 million and RMB19.5 million, which had been fully repaid during the year of 2011. The gearing ratio as measured by total bank borrowings to shareholders' funds was at approximately 55.6% and 18.9% as at 31 December 2009 and 31 December 2010 respectively. There were no bank borrowings as at 31 December 2011 and 30 June 2012 and therefore gearing ratio was not applicable as at the dates mentioned above.

All bank borrowings outstanding as at 31 December 2009 and 31 December 2010 were subject to annual fixed rates ranging from 4.86% to 8.22% throughout the years on the dates mentioned above.

For the years and period ended on the dates mentioned above, the Tianduan Group did not enter into any derivative contracts or hedging transactions.

Hydroelectric equipment

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, Tianfa Equipment had total cash on hand of approximately RMB123.1 million, RMB163.6 million, RMB95.2 million and RMB121.3 million respectively and total bank borrowings stood at RMB110 million, RMB110 million, RMB106 million and RMB106 million respectively. The gearing ratios as measured by total bank borrowings to shareholders' funds were at approximately 29.4%, 29.8%, 27.4% and 26.1% as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012 respectively.

The total bank borrowings of Tianfa Equipment as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012 stood at RMB60 million, RMB60 million, RMB56 million, and RMB56 million respectively and were subject to fixed rate, except approximately RMB50 million which was subject to floating rates and its annual interest rates were ranging from 2.43% to 6.56% throughout the years and period ended on the dates mentioned above.

For the years and period ended on the dates mentioned above, Tianfa Equipment did not enter into any derivative contracts or hedging transactions.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, the Tianduan Group had a total of approximately 993, 981, 1,114 and 1,034 employees respectively, of whom approximately 138, 130, 113 and 113 were management personnel and 216, 222, 277 and 289 were technical staff, with the balance being production workers.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, Tianfa Equipment had a total of approximately 897, 884, 876 and 851 employees respectively, of whom approximately 169, 164, 197 and 193 were management personnel and 129, 149, 152 and 143 were technical staff, with the balance being production workers.

The Tianduan Group and Tianfa Equipment have contributed to an employee pension scheme established by the PRC Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Tianduan Group and Tianfa Equipment in the PRC.

CHARGE ON ASSETS

Hydraulic presses

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, restricted bank balances of approximately RMB22.9 million, RMB8.6 million, RMB35.8 million and RMB58.9 million respectively were pledged against notes payable.

Hydroelectric equipment

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, restricted bank balances of approximately RMB81.1 million, RMB122.8 million, RMB62.1 million and RMB66.9 million respectively were pledged against notes payable.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012, bank borrowings of approximately RMB90 million, RMB90 million, RMB86 million and RMB86 million respectively were secured by land use right and buildings.

OTHERS

As majority of the transactions of the Target Companies are denominated and settled in RMB, there is no significant exposure to fluctuation in foreign exchange currency and hence no related hedges.

During the years and period ended on the dates mentioned above, there were no contingent liabilities for the Target Companies, nor any material acquisitions or disposals of subsidiaries. As at 30 June 2012, the Target Companies had no future plans for material investments or capital assets.

The following is the text of a valuation report received from Vigers, an independent valuer, prepared for the purpose of incorporation in this circular, in connection with its valuation of entire shareholding interests in Tianduan.

VIGERS APPRAISAL & CONSULTING LIMITED
International Assets Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon, Hong Kong

VIGERS 威格斯

Our Ref: RHKK/FKMY/VA16857-2012A

10 October 2012

Tianjin Development Holdings Limited
Suites 7–13, 36/F., China Merchants Tower
Shun Tak Centre, 168–200 Connaught Road Central
Hong Kong

Dear Directors,

Re: Tianjin Tianduan Press Co., Ltd. 100% equity interest valuation

In accordance with the instruction from **Tianjin Development Holdings Limited** (the "Company"), we have carried out a valuation on a 100% equity interest in **Tianjin Tianduan Press Co., Ltd.** ("Tianduan") as at 30 September 2012 (the "Valuation Date"). We understand this valuation serves the purpose of internal reference. We hereby present our valuation report which consists of a description of the Company, valuation basis & methodology, assumptions and our opinion of value.

Based on our investigation, analysis and appraisal method employed, it is our opinion that the market value of Tianduan is reasonably and approximately **Renminbi Eight Hundred and Five Million (RMB805,000,000).**

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong	**Favian Kam Man Yin**
Registered Professional Surveyor	CFA, MBA
MRICS, MHKIS, MSc (e-com)	Executive Director
China Real Estate Appraiser	
Managing Director	

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, RPS, MSc (e-com), has twenty three years experience in undertaking valuation of properties, intangible and business in Hong Kong, Macau and the PRC and has extensive experience in business valuation in the Greater China region since 1993. Favian M. Y. Kam, CFA, MBA, has over eleven years experience in business, intangible and financial assets valuation.

INTRODUCTION

In accordance with the instruction from the Company, we have carried out a valuation on Tianduan as at the Valuation Date. We understand this valuation serves the purpose of internal reference.

COMPANY BACKGROUND

Tianjin Tianduan Press Co., Ltd. is the professional research and manufacturing company of hydraulic press in China. Since 1956 Tianduan produced the first hydraulic press, it already has 42 series, more than 1,000 varieties of products ranging from 80KN to 200000KN. The products are widely used in the fields of forming shipping plates, forging extruding, aviation and spaceflight, automobile industry, glass fiber reinforced plastics, household electrical appliances and light industry, power metallurgy, equipments of war industry and so on. The company gained ISO9001 Quality System Certification and obtained the right of importing and exporting by itself in 1996. The product got the CE Certificate in 2006, and exported to over 30 countries and regions, such as Asia, Australia, Europe, America and Africa, etc.[1]

INFORMATION REVIEWED

As part of our research and analysis, we have considered information prepared by the Company, including but not limited to the following:

- History, background, business nature, operating environment and other relevant information on Tianduan
- 2006 to 2011 audited/unaudited financial statements and interim result for the 6 months ended 30 June 2012
- Tianduan's market position, competitive advantages and disadvantages
- Market information on the hydraulic press and machinery industry
- Background research of other companies with business similar to Tianduan (the "Comparable Companies") such as their business and financial profile
- The future challenges and developments of the hydraulic press and machinery industry
- The economic outlook in general and the specific economic environment where the Tianduan is exposed to

We have reviewed the information above and considered them to be sufficient in reaching an informed opinion of value. We believe no material information have been intentionally omitted or withheld from us.

[1] *Source:* The Company's website

VALUATION BASIS AND METHODOLOGY

Our appraisal has been carried out on a market value basis. Market value is defined as the estimated amount for which an asset should exchange on a date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

For this valuation, we have made reference to three generally accepted approaches to estimating market value:

- The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation as condition or obsolescence present, whether arising from physical, functional or economic causes

- The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for asset than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk

- The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the comparable market transactions

We consider the cost approach to be inadequate given that this approach fails to consider the going concern of Tianduan. The income approach and the market approach are both appropriate methods but the income approach has more reliance on financial estimation. The market approach is more favorable because this approach makes direct reference to the Comparable Companies in which their market value can be directly observed from the open market.

ASSUMPTIONS

A number of assumptions have been made during this valuation. The following assumptions are considered to be applicable and have a significant effect on this valuation. These assumptions have been evaluated and validated to provide a reasonable basis in arriving at our opinion of value.

- There will be no material adverse change in the political, legal, fiscal or economic condition in the PRC and other regions in which the Company operates

- Tianduan will retain the key management, competent personnel and technical staff to support its ongoing operation

- Market trend and conditions for Tianduan in related areas will not deviate significantly from the economic forecasts in general. Customer behavior will have no significant change throughout the valuation period

- This valuation assumes Tianduan will run into the indefinite future, that is, we assume that relevant business license can be renewed and relevant administrative procedure in relation to the renewal of business can be properly carried out

- We assume that the operating performance of Tianduan will not have significant deviations from the general market trend

- This valuation assumes that the core operating income of Tianduan is derived from selling hydraulic press machines. This valuation have not considered any non-operating income such as interest income and investment income and have not made any estimates on imponderables, or disaster which may affect Tianduan's future income

- It is assumed that there is no significant deviation from the market view on the growth prospects of Tianduan and the Comparables

THE MARKET APPROACH

The premise behind the market approach is that the trading price of the Comparable Companies provides objective evidence to the value at which market participants might be willing to buy and sell Tianduan at an arm's length transaction.

We first constructed a Comparable Company list and derived a valuation ratio from the Comparables. This valuation ratio was used to approximate, with adjustment, an appropriate ratio for Tianduan (the "Tianduan's Ratio"). The Tianduan's Ratio was then applied to one of Tianduan's accounting metric to estimate Tianduan's market value.

THE COMPARABLE COMPANY LIST

To qualify as a Comparable Company, a company must (i) be exchange listed with financial information publicly accessible, (ii) operate within the same or similar industry as Tianduan and (iii) report a positive trailing 12 month EBITDA for the period ended 30 June 2012. Although not a prerequisite, companies listed on a recognized PRC exchange is preferred.

Information about the Comparable Companies was sourced from Bloomberg. Although Bloomberg has categorized the business nature and products of each individual company, Bloomberg does not explicitly state the exact product mix percentage.

The following table shows the details of the Comparable Company used:

Bloomberg ticker	Name	EV/ EBITDA	Descriptions
000837 CH Equity	Qinchuan Machinery Development Company Limited	16.5	Qinchuan Machinery Development Company Limited of Shaanxi manufactures and markets numerically controlled gear grinders, plastics machinery, gears, and hydraulic pressed products. The Company also produces computer motherboards
002529 CH Equity	Fujian Haiyuan Automatic Equipments Company Limited	21.8	Fujian Haiyuan Automatic Equipments Company Limited manufactures and sells automatic hydraulic presses. The Company's products are automatic hydraulic autoclaved brick presses, automatic hydraulic ceramic tile presses and automatic hydraulic refractory materials
300280 CH Equity	Nantong Metalforming Equipment Company Limited	18.0	Nantong Metalforming Equipment Company Limited develops, manufactures and sells forging equipment and provides metals and non-metals molding solutions. The Company's main products include hydraulic and mechanical presses

THE VALUATION AND TIANDUAN'S RATIO

We consider the Enterprise value to EBITDA (the "EV/EBITDA" ratio) is an appropriate valuation ratio. The EV/EBITDA ratio is calculated as:

Enterprise value at the Valuation Date/Earnings before interest, tax, depreciation and amortization

For this valuation, the trailing 12 month EBITDA for the period ended 30 June 2012 is the most up-to-date accounting metric we were provided with. We consider the EV/ EBITDA ratio appropriate because (i) EBITDA is an accounting metric that represent earning power that can be compared across companies since EBITDA is not affected by the differences in tax rates, capital structure and capital invested and (ii) EV/EBITDA has been proven to be a reliable ratio for pricing manufacturing companies, of which considers an entity's cash flow level as an indicator of its value.

Adjustment made to the EV/EBITDA ratio was made to reflect Tianduan's operating and financial characteristic since the Comparable Companies are not 100% identical to Tianduan. The valuation ratio derived from the Comparable Company list was used only as a reference to estimate an appropriate Tianduan's ratio. The following list factors that were considered in making the adjustments:

- Asset size of Tianduan relative to the Comparables, which is substantially different against the Comparables. Such difference warrants a possible adjustment on the EV/EBITDA ratio
- The market where the Comparables are traded, and the hydraulic press/machinery industry's valuation with respect to the general market
- EBITDA and EBIT margins, which represents the profitability of a company and is highly correlated with market value of a company
- Growth rate and capital reinvestment rate, which are of the factors implicitly considered by the market and was factored into the EV/EBITDA ratio. In general, we expect a higher growth rate with low reinvestment rate will result in a higher EV/EBITDA ratio
- Tianduan is a private company which is subject to more risk compared to the listed Comparable Companies
- The financial gearing and operational risk. Higher gearing generally help increase the return to equity if it is under normal leverage. However, as gearing increases, liquidity risk also increases. Thus the gearing will have dual impact on the value of a company
- The average of multiple of relevant comparable companies and adjustment on possible difference on a company or industrial multiple which due to market being traded for the comparable companies and the subject

Tianduan is a non-publicly traded company; its stocks are not freely tradable on any public exchange. This illiquid nature required adjustment of its value in discount for lack of marketability. There are studies in relation to this marketability discount, such as restrictive stock studies or academic research on the range of discount. The ranges of the marketability can vary from 20% to 45%. We believe it is fair to consider a 30% discount for Tianduan's lack of marketability. Tianduan's market value computation is summarized below:

		(RMB '000.0) except for EV/EBITDA ratio
Tianduan's Ratio		14.47
T12M EBITDA ended 30 June 2012	x	68,039.0
Enterprise value	=	984,524.3
Net cash	+	164,811.0
Equity value	=	1,149,335.3
Equity value after marketability discount	=	804,534.7

OPINION OF VALUE

Based on our investigation, analysis and appraisal method employed, it is our opinion that the market value of Tianduan is reasonably and approximately **Renminbi Eight Hundred and Five Million (RMB805,000,000).**

Our opinion of value was based on generally accepted appraisal procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Our opinion was based on the management discussion, assumptions and representations, in oral or writing. The projection or estimates set out in the valuation formed part of the assumptions. We were furnished with limited financial information and other documents germane to the valuation. These data had been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of the subject. No responsibility is assumed for the accuracy of the provided information.

Our opinion of value is subject to change if any of the assumptions provided by the management is not reasonable or proper made, and we reserve the right to change or withdraw our opinion without any liabilities. This report is confidential to the client for the specific purpose to which it refers, and should not be the only factor to be reference by the client. It may be disclosed to other professional advisers assisting the client in respect of that purpose.

We have not been engaged to make specific sales or purchase recommendation. The use of the report will not supplant other due diligence which the company or the concerned parties should conduct in reaching business decision regarding the subject of valuation.

The valuation procedure did not require us to conduct legal due diligence on the legality and formality of the subject and its related legal documents, and it should be the responsibility of the legal advisor to the management of the company. Thus, no responsibility or liability is assumed from our report to the origin and continuity of the subject.

We have not inspected the original documents filed in the relevant authorities to verify ownership of the subject. We need to state that we are not legal professional and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the subject. No responsibility or liability is assumed in relation to those opinions or copies of document provided (if any).

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report. We hereby certify that we have neither present nor prospective interests in Tianduan nor the value reported.

The following is the text of a valuation report received from Vigers, an independent valuer, prepared for the purpose of incorporation in this circular, in connection with its valuation of entire shareholding interests in Tianfa Equipment.

VIGERS APPRAISAL & CONSULTING LIMITED
International Assets Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon, Hong Kong

VIGERS 威格斯

Our Ref: RHKK/FKMY/VA16857-2012B

10 October 2012

Tianjin Development Holdings Limited
Suites 7–13, 36/F., China Merchants Tower
Shun Tak Centre, 168–200 Connaught Road Central
Hong Kong

Dear Directors,

Re: Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. 100% equity interest valuation

In accordance with the instruction from **Tianjin Development Holdings Limited** (the "Company"), we have carried out a valuation on a 100% equity interest in **Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd.** ("Tianfa Equipment") as at 30 September 2012 (the "Valuation Date"). We understand this valuation serves the purpose of internal reference. We hereby present our valuation report which consists of a description of the Company, valuation basis & methodology, assumptions and our opinion of value.

Based on our investigation, analysis and appraisal method employed, it is our opinion that the market value of Tianfa Equipment is reasonably and approximately **Renminbi Four Hundred Eighty Four Million (RMB484,000,000)**.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc (e-com)
China Real Estate Appraiser
Managing Director

Favian Kam Man Yin
CFA, MBA
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, RPS, MSc (e-com), has twenty three years experience in undertaking valuation of properties, intangible and business in Hong Kong, Macau and the PRC and has extensive experience in business valuation in the Greater China region since 1993. Favian M. Y. Kam, CFA, MBA, has over eleven years experience in business, intangible and financial assets valuation.

INTRODUCTION

In accordance with the instruction from the Company, we have carried out a valuation on Tianfa Equipment as at the Valuation Date. We understand this valuation serves the purpose of internal reference.

COMPANY BACKGROUND

Founded in February 2001, **Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd.** was a state-owned Holding Company, formed by co-financing with multiple investors under the direct leadership of Tianjin Municipal Government and Tianjin Machinery Electric Industry Holding Group Company. It is one of the seven pillar industries that Tianjin Municipal Government supports and develops. Tianfa Equipment's leading products are: large, medium and small-scale mixed-type, axial type, tubular-type hydro-generating unit; large and medium-sized axial flow type, tubular-type pump pumping systems; steel rolling equipment, hydraulic presses and other heavy machinery.

Company runs according to the modern enterprise mechanism and implements general manager responsibility system under the leadership of Board of Directors, with design, craft, testing and other functional departments, and all-round objective management system, such as manufacturing, testing, quality tracking and after-sales service. It has passed the ISO9001: 2000 quality certification. In November 2009, it was awarded to be national enterprise technology center by Five State Ministries and Commissions.

Currently, Tianfa Equipment own a working staff of 884, of which more than 230 are state-level experts, high, middle and junior engineers or technicians, constituting a experienced and skilled professional and technical working team. The team includes: 5 national experts, 45 with senior professional titles, 93 with intermediate professional titles, and 87 with junior professional titles. In addition, Tianfa Equipment hire a group of retired technical experts and senior technicians from the hydropower industry, and recruit graduates fresh from universities and technical schools, constantly strengthening the workforce and raising the overall quality of employees.[1]

INFORMATION REVIEWED

As part of our research and analysis, we have considered information prepared by the Company, including but not limited to the following:

- History, background, business nature, operating environment and other relevant information on Tianfa Equipment
- 2006 to 2011 audited/unaudited financial statements and interim result for the 6 months ended 30 June 2012
- Tianfa Equipment's market position, competitive advantages and disadvantages

[1] *Source:* The Company's website

- Market information on the power generation equipment and machinery industry

- Background research of other companies with business similar to Tianfa Equipment (the "Comparable Companies") such as their business and financial profile

- The future challenges and developments of the power generation equipment and machinery industry

- The economic outlook in general and the specific economic environment where the Tianfa Equipment is exposed to

We have reviewed the information above and considered them to be sufficient in reaching an informed opinion of value. We believe no material information have been intentionally omitted or withheld from us.

VALUATION BASIS AND METHODOLOGY

Our appraisal has been carried out on a market value basis. Market value is defined as the estimated amount for which an asset should exchange on a date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

For this valuation, we have made reference to three generally accepted approaches to estimating market value:

- The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation as condition or obsolescence present, whether arising from physical, functional or economic causes

- The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for asset than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent asset with similar risk

- The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the comparable market transactions

We consider the cost approach to be inadequate given that this approach fails to consider the going concern of Tianfa Equipment. The income approach and the market approach are both appropriate methods but the income approach has more reliance on financial estimation. The market approach is more favorable because this approach makes direct reference to the Comparable Companies in which their market value can be directly observed from the open market.

ASSUMPTIONS

A number of assumptions have been made during this valuation. The following assumptions are considered to be applicable and have a significant effect on this valuation. These assumptions have been evaluated and validated to provide a reasonable basis in arriving at our opinion of value.

- There will be no material adverse change in the political, legal, fiscal or economic condition in the PRC and other regions in which the Company operates

- Tianfa Equipment will retain the key management, competent personnel and technical staff to support its ongoing operation

- Market trend and conditions for Tianfa Equipment in related areas will not deviate significantly from the economic forecasts in general. Customer behavior will have no significant change throughout the valuation period

- This valuation assumes Tianfa Equipment will run into the indefinite future, that is, we assume that relevant business license can be renewed and relevant administrative procedure in relation to the renewal of business can be properly carried out

- We assume that the operating performance of Tianfa Equipment will not have significant deviations from the general market trend

- This valuation assumes that the core operating income of Tianfa Equipment is derived from selling hydraulic power generation equipment. This valuation have not considered any non-operating income such as interest income and investment income and have not made any estimates on imponderables, or disaster which may affect Tianfa Equipment's future income

- It is assumed that there is no significant deviation from the market view on the growth prospects of Tianfa Equipment and the Comparables

THE MARKET APPROACH

The premise behind the market approach is that the trading price of the Comparable Companies provides objective evidence to the value at which market participants might be willing to buy and sell Tianfa Equipment at an arm's length transaction.

We first constructed a Comparable Company list and derived a valuation ratio from the Comparables. This valuation ratio was used to approximate, with adjustment, an appropriate ratio for Tianfa Equipment (the "Tianfa Equipment's Ratio"). The Tianfa Equipment's Ratio was then applied to one of Tianfa Equipment's accounting metric to estimate Tianfa Equipment's market value.

THE COMPARABLE COMPANY LIST

To qualify as a Comparable Company, a company must (i) be exchange listed with financial information publicly accessible, (ii) operate within the same or similar industry as Tianfa Equipment and (iii) report a positive trailing 12 month EBITDA for the period ended 30 June 2012. Although not a prerequisite, companies listed on a recognized PRC exchange is preferred.

Information about the Comparable Companies was sourced from Bloomberg. Although Bloomberg has categorized the business nature and products of each individual company, Bloomberg does not explicitly state the exact product mix percentage.

The following table shows the details of the Comparable Company used:

Bloomberg ticker	Name	EV/ EBITDA	Descriptions
600475 CH Equity	Wuxi Huaguang Boiler Company Limited	12.1	Wuxi Huaguang Boiler Co., Ltd. manufactures power station boilers, industrial boilers, boiler auxiliary engines, and condensed water equipments
002630 CH Equity	China Western Power Industrial Company Limited	17.1	China Western Power Industrial Company Limited designs, manufactures and sells energy-efficient boiler and new energy boiler and ancillary products. The Company's main products include coal boiler and special boiler
002123 CH Equity	Rongxin Power Electronic Company Limited	23.1	Rongxin Power Electronic Company Limited engages in R&D, engineering design and equipment manufacture of static VAR compensators (SVC) high power, Power Filters (FC), MABZ, HV Frequency Converters (HVC) and other related electronic equipments
002255 CH Equity	Suzhou Hailu Heavy Industry Company Limited	15.2	Suzhou Hailu Heavy Industry Company Limited primarily manufactures and markets exhaust-heat boilers
002266 CH Equity	Zhejiang Fuchunjiang Hydropower Equipment Company Limited	18.2	Zhejiang Fuchunjiang Hydropower Equipment Company Limited manufactures and installs equipment for hydroelectric power plants. It also manufactures electric components and chemical fiber machineries
002531 CH Equity	Titan Wind Energy (Suzhou) Company Limited	15.8	Titan Wind Energy (Suzhou) Company Limited produces and sells wind towers and wind tower parts

Bloomberg ticker	Name	EV/ EBITDA	Descriptions
002074 CH Equity	Jiangsu Dongyuan Electrical Group Company Limited	49.1	Jiangsu Dongyuan Electrical Group Company Limited produces and markets a variety of switchgear products. The company's main products include high-low voltage switches, cubicle switchboards, vacuum circuit breakers, lightweight steel construction products, and relate electronic components and equipments

THE VALUATION AND TIANFA EQUIPMENT'S RATIO

We consider the Enterprise value to EBITDA (the "EV/EBITDA" ratio) is an appropriate valuation ratio. The EV/EBITDA ratio is calculated as:

Enterprise value at the Valuation Date/Earnings before interest, tax, depreciation and amortization

For this valuation, the trailing 12 month EBITDA for the period ended 30 June 2012 is the most up-to-date accounting metric we were provided with. We consider the EV/EBITDA ratio appropriate because (i) EBITDA is an accounting metric that represent earning power that can be compared across companies since EBITDA is not affected by the differences in tax rates, capital structure and capital invested and (ii) EV/EBITDA has been proven to be a reliable ratio for pricing manufacturing companies, of which considers an entity's cash flow level as an indicator of its value.

Adjustment made to the EV/EBITDA ratio was made to reflect Tianfa Equipment's operating and financial characteristic since the Comparable Companies are not 100% identical to Tianfa Equipment. The valuation ratio derived from the Comparable Company list was used only as a reference to estimate an appropriate Tianfa Equipment's ratio. The following list factors that were considered in making the adjustments:

- Asset size of Tianfa Equipment relative to the Comparables, which is substantially different against the Comparables. Such difference warrants a possible adjustment on the EV/EBITDA ratio

- The market where the Comparables are traded, and the hydraulic press/machinery industry's valuation with respect to the general market

- EBITDA and EBIT margins, which represents the profitability of a company and is highly correlated with market value of a company

- Growth rate and capital reinvestment rate, which are of the factors implicitly considered by the market and was factored into the EV/EBITDA ratio. In general, we expect a higher growth rate with low reinvestment rate will result in a higher EV/EBITDA ratio

- Tianfa Equipment is a private company which is subject to more risk compared to the listed Comparable Companies

- The financial gearing and operational risk. Higher gearing generally help increase the return to equity if it is under normal leverage. However, as gearing increases, liquidity risk also increases. Thus the gearing will have dual impact on the value of a company

- The average of multiple of relevant comparable companies and adjustment on possible difference on a company or industrial multiple which due to market being traded for the comparable companies and the subject

Tianfa Equipment is a non-publicly traded company; its stocks are not freely tradable on any public exchange. This illiquid nature required adjustment of its value in discount for lack of marketability. There are studies in relation to this marketability discount, such as restrictive stock studies or academic research on the range of discount. The ranges of the marketability can vary from 20% to 45%. We believe it is fair to consider a 30% discount for Tianfa Equipment's lack of marketability. Tianfa Equipment's market value computation is summarized below:

		(RMB '000.0) except for EV/EBITDA ratio
Tianfa Equipment's Ratio		13.13
T12M EBITDA ended 30 June 2012	x	56,629.0
Enterprise value	=	743,538.8
Net debt	–	51,626.0
Equity value	=	691,912.8
Equity value after marketability discount	=	484,339.0

OPINION OF VALUE

Based on our investigation, analysis and appraisal method employed, it is our opinion that the market value of Tianfa Equipment is reasonably and approximately **Renminbi Four Hundred Eighty Four Million (RMB484,000,000).**

Our opinion of value was based on generally accepted appraisal procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Our opinion was based on the management discussion, assumptions and representations, in oral or writing. The projection or estimates set out in the valuation formed part of the assumptions. We were furnished with limited financial information and other documents germane to the valuation. These data had been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of the subject. No responsibility is assumed for the accuracy of the provided information.

Our opinion of value is subject to change if any of the assumptions provided by the management is not reasonable or proper made, and we reserve the right to change or withdraw our opinion without any liabilities. This report is confidential to the client for the specific purpose to which it refers, and should not be the only factor to be reference by the client. It may be disclosed to other professional advisers assisting the client in respect of that purpose.

We have not been engaged to make specific sales or purchase recommendation. The use of the report will not supplant other due diligence which the company or the concerned parties should conduct in reaching business decision regarding the subject of valuation.

The valuation procedure did not require us to conduct legal due diligence on the legality and formality of the subject and its related legal documents, and it should be the responsibility of the legal advisor to the management of the company. Thus, no responsibility or liability is assumed from our report to the origin and continuity of the subject.

We have not inspected the original documents filed in the relevant authorities to verify ownership of the subject. We need to state that we are not legal professional and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the subject. No responsibility or liability is assumed in relation to those opinions or copies of document provided (if any).

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report. We hereby certify that we have neither present nor prospective interests in Tianfa Equipment nor the value reported.

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 each Director and chief executive of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any 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, to be notified to the Company and the Stock Exchange were as follows:

(i) Directors' interests in the underlying Shares

Name of Director	Number of underlying Shares held	Approximate percentage of interests to the issued share capital
Mr. Yu Rumin	3,800,000	0.36%
Mr. Wu Xuemin	5,000,000	0.47%
Mr. Dai Yan	5,300,000	0.50%
Mr. Bai Zhisheng	1,100,000	0.10%
Mr. Zhang Wenli	1,100,000	0.10%
Mr. Wang Zhiyong	3,700,000	0.35%
Mr. Cheung Wing Yui, Edward	900,000	0.08%
Dr. Chan Ching Har, Eliza	400,000	0.04%
Dr. Cheng Hon Kwan	900,000	0.08%
Mr. Mak Kwai Wing, Alexander	400,000	0.04%
Ms. Ng Yi Kum, Estella	400,000	0.04%

Notes:

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

2. All interests stated above represent long positions.

3. Details of the interests of directors in share options are set out in paragraph (iii) in this section below.

(ii) Directors' interests in the underlying Shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interests	Capacity	Number of underlying shares held	Approximate percentage of interests to the issued share capital
Mr. Yu Rumin	Tianjin Port Development Holdings Limited	Personal interest	Beneficial owner	3,450,000	0.06%
Mr. Dai Yan	Tianjin Port Development Holdings Limited	Personal interest	Beneficial owner	1,650,000	0.03%
Mr. Bai Zhisheng	Dynasty Fine Wines Group Limited	Personal interest	Beneficial owner	2,300,000	0.18%

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

			Number of share options			
Name of Director	Date of grant	Exercise price per Share *HK$*	Held as at 1 January 2012	Held as at the Latest Practicable Date	Exercise Period	*Notes*
Mr. Yu Rumin	19/12/2007	8.04	1,000,000	1,000,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	2,000,000	2,000,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	800,000	800,000	11/11/2011–24/05/2017	*(4)*
Mr. Wu Xuemin	16/12/2009	5.75	1,800,000	1,800,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	3,200,000	3,200,000	11/11/2011–24/05/2017	*(4)*
Mr. Dai Yan	19/12/2007	8.04	900,000	900,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	1,400,000	1,400,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	3,000,000	3,000,000	11/11/2011–24/05/2017	*(4)*
Mr. Bai Zhisheng	19/12/2007	8.04	300,000	300,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	500,000	500,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	300,000	300,000	11/11/2011–24/05/2017	*(4)*
Mr. Zhang Wenli	19/12/2007	8.04	300,000	300,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	500,000	500,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	300,000	300,000	11/11/2011–24/05/2017	*(4)*
Mr. Wang Zhiyong	16/12/2009	5.75	900,000	900,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	2,800,000	2,800,000	11/11/2011–24/05/2017	*(4)*
Mr. Cheung Wing Yui, Edward	19/12/2007	8.04	500,000	500,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	300,000	300,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	100,000	100,000	11/11/2011–24/05/2017	*(4)*
Dr. Chan Ching Har, Eliza	16/12/2009	5.75	300,000	300,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	100,000	100,000	11/11/2011–24/05/2017	*(4)*

Name of Director	Date of grant	Exercise price per Share *HK$*	Number of share options: Held as at 1 January 2012	Number of share options: Held as at the Latest Practicable Date	Exercise Period	*Notes*
Dr. Cheng Hon Kwan	19/12/2007	8.04	500,000	500,000	17/01/2008–24/05/2017	*(1)*
	16/12/2009	5.75	300,000	300,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	100,000	100,000	11/11/2011–24/05/2017	*(4)*
Mr. Mak Kwai Wing, Alexander	16/12/2009	5.75	300,000	300,000	16/12/2009–24/05/2017	*(2)*
	07/11/2011	3.56	100,000	100,000	11/11/2011–24/05/2017	*(4)*
Ms. Ng Yi Kum, Estella	03/12/2010	6.07	300,000	300,000	03/12/2010–24/05/2017	*(3)*
	07/11/2011	3.56	100,000	100,000	11/11/2011–24/05/2017	*(4)*

Notes:

1. Pursuant to the share option scheme of the Company approved by the Shareholders at the annual general meeting held on 25 May 2007 (the "Scheme"), a total of 11,900,000 share options were granted on 19 December 2007 and accepted by the grantees on 17 January 2008, with an exercise price of HK$8.04 and are exercisable from 17 January 2008 to 24 May 2017.

2. Pursuant to the 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$5.75 and are exercisable from 16 December 2009 to 24 May 2017.

3. Pursuant to the 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$6.07 and are exercisable from 3 December 2010 to 24 May 2017.

4. Pursuant to the 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$3.56 and are exercisable from 11 November 2011 to 24 May 2017.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive or their respective associates 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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 which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of Director	Position in Tsinlien
Mr. Wu Xuemin	Director
Mr. Dai Yan	Director
Mr. Wang Zhiyong	Director
Dr. Wang Weidong	Director

DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

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

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.

LITIGATIONS

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries 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 the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business) which were entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

(1) sale and purchase agreement of 6 December 2010 entered into between the Company and Tsinlien, pursuant to which the Company should dispose of all its 40% equity interest in Golden Horse Resources Limited to Tsinlien at a consideration of HK$1.00;

(2) the capital injection agreement of 11 October 2011 entered into between Tianjin Tai Kang, Tianjin Benefo and Mr. Wu Ri in relation to the Previous Acquisition;

(3) the Tianduan Agreement; and

(4) the Tianfa Equipment Agreement.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants
Investec	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Vigers	professional surveyor and valuer

The letters and recommendations given by Deloitte, Investec and Vigers are given as at the date of this circular for incorporation herein. Each of Deloitte, Investec and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/statements and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Deloitte, Investec and Vigers was not interested in any Shares or shares in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any share or share in any member of the Group.

As at the Latest Practicable Date, each of Deloitte, Investec and Vigers did not have any direct or indirect interest in any asset which had been or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up.

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 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Mr. Tuen Kong, Simon, who holds a master's degree in business management and is also the chief financial officer of the Company.

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

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo Kwan Lee & Lo, whose address is 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours within 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2010 and 31 December 2011 respectively;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(d) the letter from the Independent Board Committee as set out on page 13 of this circular;

(e) the letter from Investec as set out on pages 14 to 28 of this circular;

(f) the accountants' report of the Tianduan Group as set out on pages 31 to 81 of this circular;

(g) the accountants' report of Tianfa Equipment as set out on pages 82 to 120 of this circular;

(h) the report by Deloitte on the unaudited pro forma financial information of the Enlarged Group as set out on pages 121 to 122 of this circular;

(i) the valuation report on Tianduan as set out on pages 132 to 138 of this circular;

(j) the valuation report on Tianfa Equipment as set out on pages 139 to 146 of this circular;

(k) the consent letters of Deloitte, Investec and Vigers referred to in the paragraph headed "Qualifications and Consents of Experts" in this Appendix; and

(l) this circular.