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If you have sold or transferred all your shares in Technovator International Limited, you should at once hand this circular and the accompany form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Stock Code: 1206)

**(1) REVISION OF EXISTING ANNUAL CAPS FOR 2017 AND 2018
AND
(2) NEW 2017 NON-EXEMPT CCT AGREEMENTS IN RELATION
TO CERTAIN CONTINUING CONNECTED TRANSACTIONS
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the
independent board committee and the Independent Shareholders**



A notice convening the extraordinary general meeting ("EGM") of the Company to be held on 21 December 2017 at 11:00 a.m. at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, is set out on pages 108 to 110 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed herein.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

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DEFINITIONS

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

“2015 Announcements and Circular”	the announcements of the Company dated 28 July 2015, 28 September 2015 and 16 October 2015, and the circular of the Company dated 25 September 2015 in relation to, among others, the Existing Future Business Arrangements CCT and the related annual caps
“2016 Agreements”	collectively, the 2016 Purchase Agreement and the 2016 Sales Agreement
“2016 Announcement”	the announcement of the Company dated 30 May 2016 in relation to, among others, the continuing connected transactions contemplated under the 2016 Agreements
“2016 Purchase Agreement”	the purchase agreement dated 30 May 2016 entered into between Technovator Beijing and THTF pursuant to which THTF agreed to sell or procure such other parties agreed by Technovator Beijing to sell wiring, lighting and other products, equipment and systems and services relating to the Group’s business of energy management, energy saving and environmental protection to Technovator Beijing for a term of three years from 1 January 2016 to 31 December 2018
“2016 Sales Agreement”	the sales agreement dated 30 May 2016 entered into between Technovator Beijing and THTF pursuant to which Technovator Beijing agreed to sell or procure such other parties agreed by THTF to sell building related application products, equipment and services, which included control security systems, and fire alarm systems, to THTF for a term of three years from 1 January 2016 to 31 December 2018
“2017 Announcement”	the announcement dated 1 November 2017 in relation to, among others, the 2017 Non-exempt CCT Agreements and the Annual Caps
“2017 Business Arrangements Agreement”	the business arrangements agreement dated 1 November 2017 entered into between Technovator Beijing, Tongfang Energy Saving and THTF
“2017 Master Agreement”	the master agreement dated 1 November 2017 entered into between Technovator Beijing and THTF, the details of which are set out in the 2017 Announcement

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“2017 Non-exempt CCT Agreements”	collectively, 2017 Business Arrangements Agreement, 2017 Sales Agreement and 2017 Purchase Agreement
“2017 Purchase Agreement”	the purchase agreement dated 1 November 2017 entered into between Technovator Beijing and THTF
“2017 Sales Agreement”	the sales agreement dated 1 November 2017 entered into between Technovator Beijing and THTF
“Acquired Projects”	the contracts or projects entered into between THTF and third parties in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses, including, up to 31 March 2015, contracts that have been signed but not yet fulfilled, and projects that are under the bidding or negotiation phase and contracts are yet to be signed, and, between the period of 31 March 2015 and the completion date, being 31 October 2015, new contracts that have been signed, and projects that are under the bidding or negotiation phase
“Acquisition Completion Date”	31 October 2015, being the completion date for the acquisitions under the Business and Assets Purchase Agreements
“Affiliate”	means any individual, partnership, corporation, trust or other entity that directly or indirectly controls, or is controlled by, or is under common control with, such individual, partnership, corporation, trust or other entity, where control means the direct or indirect ownership of 10% or more of the outstanding shares or other ownership interests having ordinary voting power to elect directors or the equivalent
“Annual Cap(s)”	proposed annual cap(s) for the continuing connected transactions contemplated under the 2017 Non-exempt CCT Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors

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“Business and Assets Purchase Agreements”	the acquisition agreement entered into by Technovator Beijing as buyer and THTF as seller on 28 July 2015 in respect of the acquisition of, among others, the Intelligent Rail Transit Business, the Intelligent Building Business and certain assets related to these businesses, and the acquisition agreement entered into by Tongfang Energy Saving as buyer and THTF as seller on 28 July 2015 in respect of the acquisition of, among others, the Intelligent Urban Heating Network Business and certain related assets
“Company”	Technovator International Limited, a limited liability company incorporated in Singapore on 25 May 2005 and the issued securities of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 21 December 2017 at 11:00 a.m. at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong for the purpose of, among other matters, considering and, if appropriate, approving the 2017 Non-exempt CCT Agreements, the transactions contemplated under the agreements and their respective Annual Cap amounts
“Existing Future Business Arrangements CCT”	the arrangements under the Business and Assets Purchase Agreements to facilitate the successful transfer of the Intelligent Rail Transit Business, the Intelligent Building Business and the Intelligent Urban Heating Network Business from THTF for the acquisitions contemplated under the Business and Assets Purchase Agreements and the future development of these businesses
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprising all of the independent non-executive Directors, namely, Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua to advise the Independent Shareholders in respect of the 2017 Non-exempt CCT Agreements and the transactions contemplated under the agreements
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in respect of the 2017 Non-exempt CCT Agreements
“Independent Shareholders”	has the meaning ascribed thereto under Chapter 13 of the Listing Rules
“Independent Third Party(ies)”	third party/ies and their ultimate beneficial owner(s) which is/are independent of the Company and their respective connected persons
“Intelligent Building Business”	business which provide building intelligence integrated solutions which center around the Building Automation (BA) that has been developed and debugged by THTF with the energy saving algorithm
“Intelligent Rail Transit Business”	business which provide intelligence integrated solutions for the main electro-mechanical systems such as Integrated Supervision and Control System (ISCS), Platform Screen Doors (PSD) and Building Automation System (BAS)
“Intelligent Rail Transit, Building and Urban Heating Network Businesses”	the Intelligent Rail Transit Business, the Intelligent Building Business and the Intelligent Urban Heating Network Business acquired from THTF under the Business and Assets Purchase Agreements
“Intelligent Urban Heating Network Business”	business which provide integrated solutions for heating plant and network including Supervisory Control And Data Acquisition (SCADA)
“Latest Practicable Date”	27 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Nominee Projects”	the contracts or projects entered into between THTF and third parties in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses acquired under the Business and Assets Purchase Agreements and new contracts or projects that have been entered into by THTF for the Intelligent Rail Transit, Building and Urban Heating Network Businesses on or after Acquisition Completion Date under the Business and Assets Purchase Agreements and 2017 Business Arrangements Agreement that THTF cannot directly transfer the relevant contracts’ legal rights and obligations to the Group
“PRC”	People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Resuccess”	Resuccess Investments Limited, an investment holding company incorporated in the British Virgin Islands on 30 March 2004 and a wholly-owned subsidiary of THTF
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Technovator Beijing”	同方泰德國際科技(北京)有限公司 (Tongfang Technovator International (Beijing) Co., Ltd*), a wholly foreign-owned enterprise established in the PRC on 7 August 2006 and a wholly-owned subsidiary of the Company

DEFINITIONS

“THTF”	同方股份有限公司 (Tsinghua Tongfang Co., Ltd*), formerly known as 清華同方股份有限公司 (Tsinghua Tongfang Company Limited*), a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所)
“Tongfang Energy Saving”	同方節能工程技術有限公司 (Tongfang Energy Saving Engineering Technology Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Tongfang Group”	THTF, its subsidiaries and their respective associates and Affiliates, from time to time (excluding the Group)
“Tongfang Kawasaki”	同方川崎節能設備有限公司 (Tongfang Kawasaki Energy Saving Equipment Co., Ltd.*), a limited liability company incorporated in the PRC and an associate of THTF, which is owned as to 50% by Tsinghua Tongfang Artificial Environment Co., Ltd., a non-wholly owned subsidiary of the THTF and 50% by Kawasaki Thermal Engineering Co., Ltd. (日本川重冷熱工業株式會社)
“%”	per cent.

ROUNDING

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Stock Code: 1206)

Executive Directors

Mr. Zhao Xiaobo

Mr. Seah Han Leong

Non-executive Directors

Mr. Huang Yu

Mr. Liu Tianmin

Mr. Wang Yinghu

Independent Non-executive Directors

Mr. Fan Ren Da Anthony

Mr. Chia Yew Boon

Ms. Chen Hua

Registered Office

66 Tannery Lane

#04-10/10A

Sindo Industrial Building

Singapore 347805

Principal place of business in Hong Kong

15th Floor

Allied Kajima Building

138 Gloucester Road

Wanchai, Hong Kong

6 December 2017

To the Shareholders

Dear Sir or Madam,

- (1) REVISION OF EXISTING ANNUAL CAPS FOR 2017 AND 2018
AND
(2) NEW 2017 NON-EXEMPT CCT AGREEMENTS IN RELATION
TO CERTAIN CONTINUING CONNECTED TRANSACTIONS
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the 2017 Announcement.

The purpose of this circular is to provide you with (i) further information relating to the 2017 Non-exempt CCT Agreements; (ii) the letter from the independent board committee to the Independent Shareholders in respect of the 2017 Non-exempt CCT Agreements; (iii) the letter from Lego Corporate Finance Limited to the independent board committee of the Company and the Independent Shareholders in respect of the 2017

* For identification purpose only

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Non-exempt CCT Agreements; and (iv) the notice convening the EGM for the Shareholders to approve each of the transactions contemplated under the 2017 Non-exempt CCT Agreements, and their respective proposed Annual Cap amounts.

BACKGROUND

Reference is made to the 2015 Announcements and Circular in relation to, among others, the Existing Future Business Arrangements CCT and the related annual caps. The Existing Future Business Arrangements CCT is to facilitate the successful transfer of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF for the acquisitions contemplated under the Business and Assets Purchase Agreements and the future development of these businesses. Pursuant to the Business and Assets Purchase Agreements:

- (i) THTF and the Group will cooperate to implement the transfer of the Acquired Projects from THTF to the Group by way of assignment, sub-contracting and/or delegation. Since the Acquisition Completion Date, the Group will be responsible for performing the work required by the Acquired Projects and entitled to the income from the Acquired Projects. To the extent that the legal rights of THTF under the contracts in respect of any Acquired Projects have not been assigned to the Group, or for any other reasons THTF receives any payment from the customers of any Acquired Projects for any income generated after the Acquisition Completion Date, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation;
- (ii) THTF should use its reasonable endeavors to notify all of the debtors of loans which are part of the assets acquired by the Group under the Business and Assets Purchase Agreements of the assignment of such debt to the Group. In the event that the relevant debtors settle such debt by paying THTF, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation;
- (iii) THTF should use its reasonable endeavors to facilitate the assumption of debt which are part of the liabilities of the Intelligent Rail Transit, Building and Urban Heating Network Businesses by the Group. In the event that THTF is required to settle such debt with the relevant third party creditors, the Group is required to reimburse THTF for such amount no later than the balance sheet date of the month in which such amount is paid by THTF;
- (iv) THTF undertakes to assist the Group to take up the Acquired Projects without any additional compensation, including but not limited to providing any necessary information to the Group and handling the relevant project completion and settlement procedures as necessary; and

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- (v) THTF will support the Group on the continual development and expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, including cooperating with the Group to develop new projects and business opportunities in respect of these businesses, being a party to the relevant agreements to facilitate the Group's conducting of these businesses if necessary, and providing the required information and assistance to complete the relevant projects, in manners similar to the support to be provided by THTF in respect of the Acquired Projects as set out in paragraphs (i) to (iv) above.

By virtue of the arrangements as set out above, to the extent that any sales or project contract of the Intelligent Rail Transit, Building and Urban Heating Network Businesses entered into by THTF are not capable to be assigned to the Group, THTF will continue to act as the party to such agreements, and will transfer any payments it receives from the relevant customers of these businesses to the Group without any additional charges. As for new sales or project contracts that it is necessary or desirable for THTF to be a contracting party, THTF may cooperate with the Group in the performance of such contracts for the relevant customers, and transfer any payments it receives from the relevant customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group without any additional charges.

Reference is also made to the 2016 Announcement in relation to, among others, the continuing connected transactions contemplated under the 2016 Agreements to accommodate the business needs of the Group. Summary of the 2016 Agreements entered into on 30 May 2016 is set out below:

- (1) Technovator Beijing and THTF entered into the 2016 Sales Agreement pursuant to which Technovator Beijing agreed to sell or procure such other parties agreed by THTF to sell building related application products, equipment and services, which included control security systems, and fire alarm systems for a term of three years from 1 January 2016 to 31 December 2018; and
- (2) Technovator Beijing and THTF entered into the 2016 Purchase Agreement pursuant to which THTF agreed to sell or procure such other parties agreed by Technovator Beijing to sell wiring, lighting and other products, equipment and systems and services relating to the Group's business of energy management, energy saving and environmental protection to Technovator Beijing for a term of three years from 1 January 2016 to 31 December 2018.

Since the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in October 2015, in order to seamlessly integrate these businesses into the Group, the Group actively optimized its structure and reorganized the resources of its business to fully tap into the business synergy of the acquired businesses and the business of the Group at the time. With the completion of the optimization and reorganization of the businesses of the Group in 2017, and with the development and growth of the Group, the Company has a better forecast as to the transactions to be carried

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out with Tongfang Group for the years ending 31 December 2017, 2018 and 2019. Furthermore, with the continued development and growth of the business of the Group, new and anticipated contracts, market conditions of properties, sales planning, actual operating circumstances of the Group, expansion of building energy-saving market, and the increase of research and development collaboration between the Group and Tongfang Group, the Board anticipates that there will be a corresponding increase in transactions under the Existing Future Business Arrangements CCT, a corresponding increase in sales from the Group to Tongfang Group and a corresponding increase in purchases by the Group from Tongfang Group. As such, the existing annual caps for transactions under the Existing Future Business Arrangements CCT, for the year ending 31 December 2017, and the existing annual caps for the transactions under the 2016 Agreements for the years ending 31 December 2017 and 2018 will not be able to satisfy the operational needs of the Group and Tongfang Group for the relevant periods.

THE 2017 BUSINESS ARRANGEMENTS AGREEMENT

The 2017 Business Arrangements Agreement was entered into on 1 November 2017 between subsidiaries of the Company, namely, Technovator Beijing and Tongfang Energy Saving, and THTF in relations to the business arrangements for the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

A summary of the principal terms of the 2017 Business Arrangements Agreement is set out below:

- | | | |
|---------|---|--|
| Date | : | 1 November 2017 (after trading hours) |
| Parties | : | (1) Technovator Beijing, a wholly-owned subsidiary of the Company
(2) Tongfang Energy Saving, a wholly-owned subsidiary of the Company
(3) THTF, a controlling Shareholder |

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- Subject matter : (i) For the Nominee Projects which THTF continues to use its name for entering into such contracts and/or projects of the Intelligent Rail Transit, Building and Urban Heating Network Businesses that the legal rights and obligations of which cannot be directly transferred to the Group, THTF will assign, sub-contract, delegate or in any other way the parties may mutually agree so that the Group will assume these contracts. The Group will be responsible for performing the work required by the Nominee Projects and entitled to the income from the Nominee Projects. To the extent that the legal rights of THTF under the contracts in respect of any Nominee Projects have not been assigned to the Group, or for any other reasons THTF receives any payment from the customers of any Nominee Projects for any income generated, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation. THTF undertakes to assist the Group to take up the Nominee Projects without any additional compensation, including but not limited to providing any necessary information to the Group and handling the relevant project completion and settlement procedures as necessary;
- (ii) If debtors of the Nominee Projects settle debts by paying THTF, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation;
- (iii) THTF to act as the party to supply contracts to procure materials or services from third party suppliers for the Nominee Projects, THTF will procure the necessary materials and services from the relevant third party suppliers for the Group upon instruction by the Group, and the Group is required to reimburse THTF for the amount paid by THTF;

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- (iv) THTF agrees that the debts which are part of the liabilities of the Nominee Projects that have not been assumed by the Group as the consent from the creditors has not been obtained, THTF will continue to satisfy such debts. In the event that THTF is required to settle such debt with the relevant third party creditors, the Group is required to reimburse THTF for such amount no later than the balance sheet date of the month in which such amount is paid by THTF; and
- (v) THTF will continue to support the Group on the continual development and expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. THTF agrees to provide support and cooperation for the Group for the Intelligent Rail Transit, Building and Urban Heating Network Businesses upon reasonable request from the Group including cooperating with the Group to develop new projects and business opportunities in respect of these businesses, being a party to the relevant agreements to facilitate the Group's conducting of these businesses if necessary, and providing the required information and assistance to complete the relevant projects, in manners similar to the support to be provided by THTF as set out in paragraphs (i) to (iv) above. Such new sales, procurement or project contracts if to be signed by THTF, all of the terms shall be negotiated by the Group.

By virtue of the arrangements as set out above, to the extent that any Nominee Projects are not capable to be assigned to the Group, THTF will continue to act as the party to such agreements, and will transfer any payments it receives from the relevant customers of the these businesses to the Group without any additional charges. As for new project or contracts that it is necessary or desirable for THTF to be a contracting party, THTF may cooperate with the Group in the performance of such contracts for the relevant customers, and transfer any payments it receives from the relevant customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group without any additional charges.

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Pricing and payment : THTF will transfer any payments it receives from the relevant projects to the Group without any additional charges, and the full amount received by THTF from third party customers will be transferred to the Group, no later than the balance sheet date of the month in which such amount is received.

THTF will also not be entitled to any additional fees or compensation for settling debts with third party creditors under the 2017 Business Arrangements Agreement, the Group is required to reimburse THTF for the full amount of such payments no later than the balance sheet date of the month in which such amount is paid by THTF.

The prices for new sales contracts to which THTF will act as the party will be negotiated with third party customers based on the price range as indicated by the prices charged by THTF (including those Nominee Projects signed in name of THTF) in at least two projects within the past 12 months with scope of services undertaken and/or for products sold by the relevant Intelligent Rail Transit, Building and Urban Heating Network Businesses which most closely resembles the requirements of the new sales contract concerned.

The prices for the purchase of material and/or services to be procured under supply contracts will be negotiated with third party suppliers based on the price range as indicated by the prices paid by THTF (including those Nominee Projects signed in name of THTF) in at least two purchases within the past 12 months for similar material and/or services.

Terms : a term of three years from 1 January 2017 to 31 December 2019

Annual caps : Payments to be transferred by THTF to the Group

For the year ending 31 December 2017 – RMB1,200.0 million
For the year ending 31 December 2018 – RMB1,500.0 million
For the year ending 31 December 2019 – RMB1,600.0 million

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Payments to be transferred by the Group to THTF

For the year ending 31 December 2017 – RMB1,000.0 million

For the year ending 31 December 2018 – RMB1,250.0 million

For the year ending 31 December 2019 – RMB1,300.0 million

The annual caps only cover (i) any amount paid by THTF to the Group arising from THTF's obligations under the 2017 Business Arrangements Agreement to pay such amount as set forth in Subject Matter (i), (ii) and (v) of the summary of principle terms of the 2017 Business Arrangement Agreement; and (ii) any amount paid by the Group to THTF arising from the Group's obligations under the 2017 Business Arrangements Agreement to reimburse THTF for such amount as set forth in Subject Matter (iii), (iv) and (v) under "Subject Matter" above.

Save for the changes to the relevant annual caps as disclosed above, there is no material change in the terms of the 2017 Business Arrangements Agreement as compared to the terms of the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements. As disclosed in the circular of the Company dated 25 September 2015, other than the Business and Assets Purchase Agreements, the Group and THTF did not enter into any other agreements with respect to the Existing Future Business Arrangements CCT. The 2017 Business Arrangements Agreement has been prepared and entered into to include all the material terms of the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements. Furthermore, the 2017 Business Arrangements Agreement also includes the annual caps for the transactions contemplated under the agreement for the years ended 31 December 2017, 2018 and 2019. The Directors confirm that save for changes to the relevant annual caps as disclosed above and drafting and language changes, which are immaterial in relation to the transactions contemplated under the 2017 Business Arrangements Agreement, there are no differences between the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements as disclosed in the circular of the Company dated 25 September 2015 and in the 2017 Business Arrangements Agreement.

Furthermore, the amount to be received from THTF by the Group does not equate to revenue to be generated under the Nominee Projects for the relevant period as the contracted amount for each project includes value added tax, which are not booked as revenue in the accounts of the Group, and that some of the payments are for completed projects of prior periods. Similarly, the amount to be transferred by the Group to THTF does not equate to purchases for the period. Please refer to the "Relationship with and Information about THTF – Historical and Future Transactions with THTF Involvement" in this letter for further details.

Historical Transaction Amounts

For the years ended 31 December 2015 and 2016 and for the ten months ended 31 October 2017, payments transferred by THTF to the Group under the Existing Future

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Business Arrangement CCT amounted to RMB298.8 million, RMB771.5 million and RMB637.5 million, respectively.

For the years ended 31 December 2015 and 2016 and for the ten months ended 31 October 2017, payments transferred by the Group to THTF under the Existing Future Business Arrangement CCT amounted to RMB112.5 million, RMB532.0 million and RMB654.0 million, respectively.

Existing Annual Caps

For the years ended 31 December 2015 and 2016 and the year ending 2017, the annual caps for payments to be transferred by THTF to the Group under the Existing Future Business Arrangements CCT were and are RMB338.0 million, RMB778.0 million and RMB874.0 million, respectively.

For the years ended 31 December 2015 and 2016 and the year ending 2017, the annual caps for payments to be transferred by the Group to THTF under the Existing Future Business Arrangements CCT were and are RMB238.0 million, RMB622.0 million and RMB700.0 million, respectively.

Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2017, 2018 and 2019, the Company has taken into account the following:

- (i) *Sales data:* Sales data of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, including the contract price of the existing projects, contracts in negotiation and bidding of projects participated by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, and estimated growth for each of the businesses (as further detailed in paragraph (v) below). In particular, a large-scale project awarded in September 2017 under the Intelligent Building Business with a contract period of approximately two years is expected to be completed by the end of 2019 with a total contract price of RMB750 million (including value added tax), and THTF is the contracting party since the Group has yet to obtain the relevant approval from the customer to directly supply to such customer. This large-scale project is expected to contribute to a considerable portion of the increase in payments under the Nominee Projects to be received and to be settled by the Group in the coming years. Furthermore, with the growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the Group expects that there will be an increase in revenue generated from these businesses, and as a result, it expects that the amount to be transferred from THTF to the Group will increase as a result. Based on the contract sum and payment terms of contracts under the Intelligent Rail Transit, Building and Urban Heating Network Businesses which are currently ongoing or under negotiation and are likely to be undertaken by the Group, the Group expects that there will be approximately RMB1,150 million, RMB850 million and RMB200 million payments to be transferred by THTF to the Group for each of the years ending 31 December 2017, 2018 and 2019, respectively, and the

LETTER FROM THE BOARD

Group also expects that approximately RMB940 million, RMB695 million and RMB140 million payments to be transferred by the Group to THTF would be payable to third party creditors in relation to the aforementioned projects for each of the years ending 31 December 2017, 2018 and 2019, respectively;

- (ii) *Historical pattern of payments of contract prices by the Intelligent Rail Transit, Building and Urban Heating Network Businesses' customers:* The amount of fees to be received by the Group from third party customers through THTF during each year is determined with reference to the historical pattern of payments of contract prices, including seasonality and proportions of payments in each year, and a proportion of the aggregate amount under the subsisting Nominee Projects and anticipated new projects is allocated to each year at a certain percentage, representing the estimated amount of payments received by the Group each year. Based on the historical payment pattern, majority of the payments from the customers are made in the last quarter, in particular in December, of each year. Considering the above, the Group expects that a significant portion of payments under the Nominee Projects for the year ending 31 December 2017 will be received by the Group towards the end of 2017;
- (iii) *Historical cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:* The historical cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a percentage of revenue received each year is used to approximate the amount of payments that the Group will pay to THTF to settle debts with third party creditors by reference to the amount of contract price it will receive for the given year. Based on historical invoicing pattern and the industry trend based on the operation experience of the Directors, majority of the cost of sales are billed in the last quarter of each year for settlement, and the Group generally settles such payables with THTF in December of each year. Considering the above, the Group expects that a significant portion of payables for the year ending 31 December 2017 under the Nominee Projects will be settled by the Group towards the end of 2017;
- (iv) *Trends of the gross profit margin of each of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:* The cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a percentage of revenue received each year (as mentioned in paragraph (iii) above) is determined based on the historical gross profit margins of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and taking into account the prevailing trend of such gross profit margins. The projected cost of sales is used to estimate the amount of payables to be settled under the Nominee Projects by the Group;
- (v) *Expected growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:* The assumed growth rate of the total contract price for each year is based on the historical and forecasted growth rates of the Intelligent Rail Transit, Building and Urban Heating Network Businesses,

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taking into account industry trends and macro-economic factors, coupled with the Group's targeted growth rate. In particular, the annual caps for the years ending 31 December 2017, 2018 and 2019 have taken into account of the growth from the expected revenue and cost of sales from the large-scale project mentioned above, and the other contracts and projects of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole and as for the years ending 31 December 2018 and 2019, it is assumed the growth rate for the revenue and cost of sales to be approximately 20.0% by reference to the historical growth rate of the revenue and the targeted growth rate of the Group. Considering the above, the Group expects that the payments to be received by the Group under the Nominee Projects for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase;

- (vi) *Expected payment from customers of completed projects:* A number of Nominee Projects have been completed but pending final payment from the customers. The last payment from the customers may take as long as five years from the date of contract. As such, with the growth of the Group's business, including the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses, the amount of payment to be received from THTF for the Nominee Projects are expected to increase as a result for the years ending 31 December 2017, 2018 and 2019; and
- (vii) *Completion of integration of the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses:* After the Acquisition Completion Date, the Group commenced the integration of the Intelligent Rail Transit, Building and Urban Heating Network Businesses into the businesses of the Group, in particular, into the three business segments of the Group, namely, the smart transport business, smart building and complex business, and smart energy business segments. 2017 marks the first year that the integration is completed and the Company has a more realistic outlook of the annual caps required for the years ending 31 December 2017, 2018 and 2019.

Changes in the Factors Affecting the Determination of the Annual Caps

The Group considers that the increase in annual caps is justified due to the following changes in the factors affecting the determination of the annual caps described above as compared to those considered by the Company at the time of the Existing Future Business Arrangements CCT:

- (i) *Sales data:* Based on the Group's analysis of the sales data of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as mentioned above, the Group expects sales generated from existing and future projects to increase, taking into account in particular the large-scale project under the Intelligent Building Business as described above that is expected to be completed by the end of 2019, for which THTF is the contracting party;
- (ii) *Expected growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:* The Group expects the Intelligent Rail Transit, Building

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and Urban Heating Network Businesses to experience growth in the future given the industry trends, macro-economic factors and in particular the expected revenue and cost of sales generated from the large-scale project mentioned above. From the financial year ended 31 December 2013 to the financial year ended 31 December 2016, the revenue of the Group has experienced growth at a compounded annual growth rate (“CAGR”) of approximately 18.2%. Further, the Group’s revenue for the six months ended 30 June 2017 has experienced a year-on-year increase of approximately 19.6% as compared to the revenue for the six months ended 30 June 2016. As a result, the Group has upwardly adjusted the assumed growth rate for revenue and cost of sales generated from the Intelligent Rail Transit, Building and Urban Heating Network Businesses to approximately 20.0% per year, as compared to 15.0% previously; and

- (iii) *Better estimate of the annual caps:* After the Acquisition Completion Date, the Group commenced the integration of the Intelligent Rail Transit, Building and Urban Heating Network Businesses into the businesses of the Group. After an initial transition period, the Group is able to have a better estimate of the annual caps required for the years ending 31 December 2017, 2018 and 2019.

Assumptions Made in Determining the Annual Caps

The following assumptions have been made by the Company in determining the annual caps:

- (i) the sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses will increase as projected, taking into account in particular the large-scale project under the Intelligent Building Business as described above that is expected to be completed by the end of 2019;
- (ii) the future pattern of payments of (a) contract prices by customers and (b) settlement of debts with third party suppliers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses will be generally in line with the historical payment patterns;
- (iii) the growth rate for revenue and cost of sales generated from the Intelligent Rail Transit, Building and Urban Heating Network Businesses will be approximately 20.0% per year. The assumed growth rate is determined based on (a) the CAGR of approximately 18.2% for the Group’s revenue from the financial years ended 31 December 2013 to the financial year ended 31 December 2016; and (b) the year-on-year increase of approximately 19.6% of the Group’s revenue for the 6 months ended 30 June 2017 compared to the 6 months ended 30 June 2016; and
- (iv) none of the legal titles of existing Nominee Projects will be assigned to the Group given the legal impediments to such an assignment as described in “The 2017 Business Arrangements Agreement – Legal Impediments to the Transfer of Legal Titles of the Nominee Projects and Risks Associated with Such Impediments” in this letter.

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Financial Effects of the Transactions Contemplated under the 2017 Business Arrangements Agreement

Under the 2017 Business Arrangements Agreement, transactions contemplated under the agreement are (i) payments to be transferred by THTF to the Group; and (ii) payments to be transferred by the Group to THTF. For the payments to be transferred by THTF to the Group, such payments are the payments from the customers to the Group through THTF, who is the contractor under the contract of the relevant Nominee Project, for the works that the Group performs for the relevant Nominee Project. As for the payments to be transferred by the Group to THTF, such payments are for the payments to the suppliers for the procurement of raw materials, products and services by the Group, through THTF as the contractor of the relevant Nominee Project, for the Nominee Project. Under the 2017 Business Arrangements Agreement, THTF is not entitled to any additional charge for these payments to and from the Group, or for the sales or procurement for the Nominee Projects.

Once an invoice has been issued by THTF to the customers for the Nominee Projects, such amount will be recorded as accounts receivable from the customers and will be recognised as revenue in the Group's account. On the other hand, once an invoice has been issued by the suppliers to THTF for the Nominee Projects, such amount will be recorded as accounts payable to the suppliers, while the products so supplied will be recorded as inventory of the Group. When the inventory is used for the performance of the Nominee Projects, the relevant amount will be recognised as cost of sales in the Group's account. THTF maintains a separate bank account for all receipts and payments related to the Nominee Projects, and all of the balance will be transferred to the Group by the end of each month-end. As all balances related to the payments to be transferred to and from THTF and the Group are cleared by each month-end, the Group has no amount due to or from THTF recorded in its accounts for each month-end in relation to the 2017 Business Arrangements Agreement. Furthermore, the receipts from customers and payments to suppliers creating the bank balances will be recorded as settlement of accounts receivables and payables, respectively. Please refer to "Internal Control – The 2017 Business Arrangements Agreement" in this letter for further details of the control in place for the said bank account.

Acquired Projects and Nominee Projects

Reference is made to the 2015 Announcements and Circular. Pursuant to the Business and Assets Purchase Agreements, the Group acquired from THTF, among others, the Acquired Projects, being the contracts for projects entered into between THTF and third parties in relation to Intelligent Rail Transit, Building and Urban Heating Network Businesses, including, up to 31 March 2015, contracts that have been signed but not yet fulfilled, and projects that are under the bidding or negotiation phase and contracts are yet to be signed, and, between the period of 31 March 2015 and 31 October 2015, being the Acquisition Completion Date, new contracts that have been signed, and projects that are under the bidding or negotiation phase.

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Pursuant to the Business and Assets Purchase Agreements, a total of 476 Acquired Projects were acquired by Group from THTF on the Acquisition Completion Date. Among these Acquired Projects, 241 are still in progress or completed and pending final payment, forming part of the Nominee Projects.

Nominee Projects Entered into after the Acquisition Completion Date

As at 31 October 2017, the number and amount of (i) new Nominee Projects entered into in the name of THTF with existing customers (being customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as at the Acquisition Completion Date); and (ii) new Nominee Projects entered into in the name of THTF with new customers (being new customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses acquired after the Acquisition Completion Date), as compared to the total contracts of the Intelligent Rail Transit, Building and Urban Heating Network Businesses after the Acquisition Completion Date are as follows:

	New Nominee Projects entered into with existing customers	Percentage of total contracts (%)	New Nominee Projects entered into with new customers	Percentage of total contracts (%)
Number of Projects	257	15.6	137	8.3
Total contracted amount (RMB million)	1,310.2	23.7	1,814.7 ⁽¹⁾	32.8 ⁽¹⁾

Note:

- (1) This figure includes the large-scale contract with a total contract price of RMB750 million (including value added tax) as described in “The 2017 Business Arrangements Agreement — Basis of the Annual Caps” in this letter.

These existing customers, primarily larger customers or customers from large-scale projects, still continue to enter into contracts with THTF instead of the Group as they wish to deal with THTF in the meantime due to their past relationships, and/or as a result of their internal requirements still cannot directly engage the Group at the moment. As for the new customers, since THTF has been operating for a significant period of time and has built its brand recognition in the market, these new customers, primarily larger customers or customers from large-scale projects, also wish to deal with THTF in the meantime and/or as a result of their internal requirements that could proceed to engage THTF for the contracts but not the Group. THTF has therefore entered into these contracts in its name for the Group so that the Group can avoid loss of potential business opportunities, including capturing the current growth of the Intelligent Rail Transit, Building and Urban Heating Businesses while building-up the Group’s presence and name. Please also refer to “The 2017 Business Arrangements Agreement — Reasons for and benefits of the 2017 Business Arrangements Agreement” in this letter for further details.

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As at 31 October 2017, the outstanding contracted amounts of Nominee Projects expected to be received by the Group which were (i) acquired under the Business and Assets Purchase Agreements and (ii) entered on or after the Acquisition Completion Date under the Business and Assets Purchase Agreements are approximately RMB1,041.5 million and RMB2,406.7 million, respectively.

Legal Impediments to the Transfer of Legal Titles of the Nominee Projects and the Risks Associated with Such Impediments

Pursuant to PRC Contract Laws, a party to a contract may, upon obtaining the consent of the other party, assign to a third party its rights and obligations in entirety. As such, the rights and obligations under the relevant contract of the Acquired Projects may only be assigned with consent from the third parties. As at 31 October 2017, being the latest practicable date, 241 of the Acquired Projects of varying sizes are still ongoing, or completed pending final payment. These Acquired Projects are part of the Nominee Projects, and were not assigned to the Group as at 31 October 2017. THTF has been using its best endeavor to obtain the consent from the relevant customers to assign these contracts to the Group but without success. Although THTF has not been able to assign these contracts to the Group, with the Group's perseverance, over 70 customers have directly contracted with the Group since the Acquisition Completion Date relating to the portion of business acquired of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

As the legal titles of the Nominee Projects are with THTF, the Group may be adversely affected if any default arises between third party customers of the Nominee Projects and THTF. In particular, if any disagreement, claim or dispute arising out of the Nominee Project occurs between THTF, as the contracting party of the relevant Nominee Project, and the third party customer in connection with such project, THTF will continue to assume the liabilities and legal risks associated with it. However, the Group may nonetheless be adversely affected by the legal consequences even by not participating the legal proceeding directly if unfavorable judgments are obtained against THTF. In order to mitigate the risks associated with having THTF as the contracting party for the Nominee Projects, a number of internal control measures have been put in place. Please refer to "Internal Controls – The 2017 Business Arrangements Agreement" in this letter for further details.

Future Development of the Intelligent Rail Transit, Building and Urban Heating Network Businesses

The Group has completed the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF on the Acquisition Completion Date, being 31 October 2015. Since then, the Group has completed the integration of the businesses into the smart transport business, smart building and complex business and smart energy business segments, and 2017 is the first operating year after completion of the integration. The Intelligent Rail Transit, Building and Urban Heating Network Businesses that the Group has acquired from THTF target to facilitate the Group to optimize the layout of the industry chain, explore customers' resources, strengthen the Group's urban integrated services and seize more potential business opportunities so as to

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provide greater driving force and more sources for the future growth of the Group. With the integration and synergy of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the Group has not only directly contracted with over 70 customers under the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses, but also has secured over 200 new customers for the supply of products since the Acquisition Completion Date, including products of energy saving management for urban infrastructure that the Group used to provide for system integration projects of the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses.

Furthermore, the Company has concrete plans to reduce its transactions with Tongfang Group. Please refer to “Relationship with and information about THTF – Plan to Reduce Transactions with Tongfang Group” in this letter for further details.

As such, the Group believes it will be able to develop its smart transport business, smart building and complex business and smart energy business segments, including the Intelligent Rail Transit, Building and Urban Heating Network Businesses acquired from THTF, independent of Tongfang Group.

Reasons for and benefits of the 2017 Business Arrangements Agreement

Under the 2017 Business Arrangements Agreement, the Group has the right but not the obligation to require THTF to facilitate the Intelligent Rail Transit, Building and Urban Heating Network Businesses in the manners set out above. The transactions contemplated under the 2017 Business Arrangement Agreement will enable the Group to continue to develop and grow the Intelligent Rail Transit, Building and Urban Heating Network Businesses while the Group is establishing its position in the market under its own name. Although since the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in October 2015, a number of projects and contracts have been transferred to the Group or the Group is directly engaged for the new projects and contracts, a number of customers especially those with large-scale projects still wish to deal with THTF in the meantime due to their past relationships. As THTF has been operating for a significant period of time and has built its brand recognition among customers, with its assistance by way of the arrangements under the 2017 Business Arrangements Agreement, the Group can avoid loss of potential business opportunities, including to capture the current growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and those large-scale projects where the customers still wish to deal with THTF in the meantime, while building-up the Group’s presence and name.

As at the date of this circular, the Group is still building its presence in the market for the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Also, for some customers who would need time to obtain their own internal approval to engage the Group for the services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the customers may wish to continue to deal with THTF in the meantime due to their history of dealings with THTF. The arrangements under the 2017 Business Arrangements Agreement also cover new projects which may be undertaken.

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As for the transfer from the Group to THTF, those transfers are to facilitate the settlement of the debts related to the Nominee Projects, which are for the payments to the suppliers for the procurement of raw materials, products and services by the Group for the Nominee Projects that THTF has procured for the Group in order for the Group to provide the services to the Nominee Projects. Furthermore, THTF is not entitled to any additional charge for these payments or procurement. The Group monitors and checks the invoices sent from the suppliers of the Nominee Projects to THTF to ensure its accuracy. Furthermore, all payments of invoices to the suppliers are managed by the finance department of the Group from a separate bank account controlled by the Group, which is in the name of THTF and contains all the monies received from the customers of the Nominee Projects. Please refer to “Internal Control – The 2017 Business Arrangements Agreement” in this letter for further details of the said bank account. Once the payment is paid from the said bank account, it is considered THTF has paid the outstanding debt and the Group has reimbursed the payment of such debt at the same time. Hence, THTF does not in fact pay on behalf of the Group of any debts related to the Nominee Projects, and all debts of the Nominee Projects are settled by the Group through the balance in the said bank account, being monies of the Group.

Hence, THTF is in name the legal debtor for the debts of the Nominee Projects, which have not been assumed by the Group. All the debts as at the Latest Practicable Date arise from the requests and needs of the Group in order to procure raw materials, products and services for the Nominee Projects and are the Group’s costs of sales in order to generate the revenue. Therefore, if THTF has to settle any debts on behalf of the Group for the Nominee Projects, the Group has to reimburse THTF for any amount settled for these debts. As such, the Directors, including the independent non-executive Directors, are of the view that the reimbursement of the amounts to THTF for the settlement of debts of the Nominee Projects under the 2017 Business Arrangements Agreement are fair and reasonable to the Company and its Shareholders as a whole. The Directors believe the arrangements under the 2017 Business Arrangements Agreement continue to be an integral part of the operations of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

The Directors, including the independent non-executive Directors, are of the view that the 2017 Business Arrangements Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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THE 2017 SALES AGREEMENT

The 2017 Sales Agreement was entered into on 1 November 2017 between Technovator Beijing and THTF to terminate the 2016 Sales Agreement and to commence a new term for the transactions contemplated under the 2017 Sales Agreement of three years from 1 January 2017 to 31 December 2019.

A summary of the principal terms of the 2017 Sales Agreement is set out below:

- Date : 1 November 2017 (after trading hours)
- Parties : (1) Technovator Beijing, a wholly-owned subsidiary of the Company
(2) THTF, a controlling Shareholder
- Subject matter : Technovator Beijing agreed to sell or procure such other parties agreed by THTF, including members of the Group, to sell building and municipal infrastructure construction related products, equipment and services, which include control security systems, and fire alarm systems to Tongfang Group for a term of three years from 1 January 2017 to 31 December 2019.
- Consideration and payment : The price at which the Group sells such products to Tongfang Group will be determined based on normal commercial terms after arm's length negotiation.

For the sale of ready-made products or the provision of standardised services, the price for such products or services shall be determined based on the pricing terms as offered by the Group no less favorable than those given to Independent Third Parties. The Group shall regularly review such pricing policy.

For the sale of self-produced products or services, the Group shall make reference to transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by the Group are not less favourable than those offered to Independent Third Parties.

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When negotiating the price, the Group will make reference to the following factors:

- (i) the prevailing market rate determined based on:
 - (a) the price of similar products used in similar scale and nature of projects offered by the Group and accepted by Independent Third Party customers (the “**Comparable Sales Transactions**”) during a period of 12 months prior to the relevant transaction with Tongfang Group (the “**12-Month Sales Period**”) (if any), including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers; and
 - (b) if there are no Comparable Sales Transactions within the 12-Month Sales Period, the price of similar products used in similar scale and nature of products offered by the Group and accepted by Independent Third Party customers any time prior to the 12-Month Sales Period, including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers and taking into account the latest market and independent supplier information available to the Group at time of the relevant transaction with Tongfang Group;
- (ii) length of the contracts; and
- (iii) the type, design and expected costs of the products.

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The Group maintains a standardised price list applicable to all customers. The standardised prices of products are determined based on cost-plus pricing with a mark-up rate of usually not less than 20%, taking into account (i) for self-produced products, the production cost; or (ii) for procured products, the procurement cost, and are reviewed and adjusted by the product management department from time to time with reference to changes in the market prices of similar products offered by the Group's competitors. For ancillary services provided in connection with the products, the standardised service fee is set at a percentage, usually 12%, of the quoted product price. Based on the above, the Group considers that the prices in the standardised price list are fair and reasonable. After due consideration of the above factors, the sales department will, based on the price as stated in the Group's standardised price list, determine the final quotation price and discount after considering additional factors such as the scale of the contract and the payment terms.

In any event, the price offered to Tongfang Group should be no less favourable to the Group than that offered by the Group to Independent Third Party customers for products of a similar type, scale and nature of projects and length of contracts.

The payment terms for the products will be set out in separate sales contracts, shall be on normal commercial terms, and determined with reference to prevailing market practices.

Depending on the product type, scale and length of contracts, the payment term may include a deposit and/or instalments which may be payable at the completion of different stages of the contract or after certain deliverables are available or after certain milestones are reached.

In any event, the payment terms should be no less favorable to the Group than those offered by the Group to Independent Third Party customers for products of a similar type, scale and length of contracts.

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As an active market participant, the Group will through market analysis, market research, feedback from customers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and competitor information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced sales and marketing personnel focusing on different regions and cities throughout the PRC.

Since the price determined based on the methods and procedures above and offered to Tongfang Group at least the same as that offered to Independent Third Party customers, the Directors believe that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its minority Shareholders.

Terms	:	a term of three years from 1 January 2017 to 31 December 2019
Annual caps	:	For the year ending 31 December 2017 – RMB120.0 million For the year ending 31 December 2018 – RMB280.0 million For the year ending 31 December 2019 – RMB300.0 million

Historical Transaction Amounts

For the year ended 31 December 2016 and for the ten months ended 31 October 2017, the Group sold products under the 2016 Sales Agreement to Tongfang Group in the amount of approximately RMB47.1 million and RMB51.2 million, respectively.

Existing Annual Caps

The existing annual caps under the 2016 Sales Agreement for the years ending 31 December 2017 and 2018 amounted to RMB55.0 million and RMB55.0 million, respectively.

Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2017, 2018 and 2019, the Company has taken into account, among other things, the following:

- (i) *Historical transaction amount*: The historical sales amount for the year ended 31 December 2016 and for the ten months ended 31 October 2017 that the Group sold to Tongfang Group under the 2016 Sales Agreement, and the historical patterns, including seasonality and proportions of payment each year. In particular, for energy saving projects, the Group generally will invoice for

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progress payment of the projects with reference to the work done towards the last quarter each year in line with industry practice. Considering the above, the Group expects that an appreciable portion of sales under the 2017 Sales Agreement for the year ending 31 December 2017 will be generated towards the end of 2017;

- (ii) *Forecasted sales amount:* The forecasted sales amount based on discussions with Tongfang Group taking into account of new contracts and projects in the pipeline, including the expected business growth of Tongfang Group for the years ending 31 December 2017 and 2018, and the new conversation of coal to electricity projects of Tongfang Group and the energy saving related work is expected to be provided by the Group commencing in 2018, whereby Tongfang Group plans to procure related products and services from the Group. In particular, for the year ending 31 December 2017, the annual cap has taken into account of the current negotiation of certain sales contracts that is expected to be entered into towards the end of December 2017 for delivery commencing in December 2017 primarily for the anticipated business growth of Tongfang Group mentioned above. Furthermore, the growth for the sales to Tongfang Group for these related products and services is assumed to increase at a rate of approximately 20.0% each of the years ending 31 December 2018 and 2019, based on the factors above and the targeted growth rate of the Group. Considering the above, the Group expects that the sales generated from the 2017 Sales Agreement for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase; and
- (iii) *Trends of gross profit margin of products and services:* The expected gross profit margin of products and services of the Group based on historical patterns and the targeted gross profit margin of the Group. The expected gross profit margin is used to estimate the future prices of the products and services to be provided by the Group.

Changes in the Factors Affecting the Determination of the Annual Caps

The Group considers that the increase in annual caps is justified due to the following changes in the factors affecting the determination of the annual caps described above as compared to those considered by the Company at the time of the 2016 Sales Agreement:

- (i) *Forecasted sales amount:* The forecasted sales amount is expected to increase, based on (a) the expected business growth of Tongfang Group for the years ending 31 December 2017 and 2018; (b) the plans of Tongfang Group to procure related products from the Group for its new conversation of coal to electricity projects and the energy saving related work; and (c) in particular, the current negotiation of certain sales contracts that is expected to be entered into towards the end of December 2017 for delivery commencing in December 2017; and

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- (ii) *Expected growth of sales to Tongfang Group for those related products and services:* Apart from the expected growth of Tongfang Group as described above, from the financial year ended 31 December 2013 to the financial year ended 31 December 2016, the revenue of the Group has experienced growth at a compounded annual growth rate of approximately 18.2%, whereas the Group's revenue for the 6 months ended 30 June 2017 has experienced a year-on-year increase of approximately 19.6% as compared to the revenue for the 6 months ended 30 June 2016. Based on the above, the growth of sales to Tongfang Group is assumed to be approximately 20.0% per year.

Assumptions Made in Determining the Annual Caps

The following assumptions have been made by the Company in determining the annual caps:

- (i) the forecasted sales amount to Tongfang Group will increase as projected, given projected business growth of Tongfang Group and the plans of Tongfang Group to procure related products from us; and
- (ii) the growth rate for sales to Tongfang Group will be approximately 20.0% per year. The assumed growth rate is determined based on (a) the CAGR of approximately 18.2% for the Group's revenue from the financial years ended 31 December 2013 to the financial year ended 31 December 2016; and (b) the year-on-year increase of approximately 19.6% of the Group's revenue for the 6 months ended 30 June 2017 compared to the 6 months ended 30 June 2016.

Reasons for and benefits of the 2017 Sales Agreement

The Directors believe that maintaining the sales of goods to Tongfang Group has a positive contribution to the operating revenue of the Group, and that Tongfang Group has proven to have a good track record in settling the trade payables to the Group in a timely manner. The Group has benefited from working with Tongfang Group in the past and Tongfang Group's businesses are important to the Group. Given the mutual beneficial relationship between Tongfang Group and the Group, the Directors, including the independent non-executive Directors, are of the view that the 2017 Sales Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE 2017 PURCHASE AGREEMENT

The 2017 Purchase Agreement was entered into on 1 November 2017 between Technovator Beijing and THTF to terminate the 2016 Purchase Agreement and to commence a new term for the transactions contemplated under the 2017 Purchase Agreement of three years from 1 January 2017 to 31 December 2019.

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A summary of the principal terms of the 2017 Purchase Agreement is set out below:

- Date : 1 November 2017 (after trading hours)
- Parties : (1) Technovator Beijing, a wholly-owned subsidiary of the Company
(2) THTF, a controlling Shareholder
- Subject matter : THTF agreed to sell or procure such other parties agreed by Technovator Beijing, including members of Tongfang Group, to sell wiring, lighting and other products, equipment and systems and services relating to the Group's business of energy management, energy saving and environmental protection to the Group for a term of three years from 1 January 2017 to 31 December 2019.
- Consideration and payment : The price of such goods and services supplied by Tongfang Group to the Group will be determined based on normal and commercial terms after arm's length negotiations, with reference to the prevailing market price of similar goods and services at the time of a particular transaction, and in any event no less favourable to the Group than those offered by Independent Third Party suppliers to the Group.

The Group shall make reference to not less than two transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by Tongfang Group to the Group are fair and reasonable and similar to those offered by Independent Third Parties.

The market rate of the goods and services is to be ascertained based on the prevailing market price of the goods and services determined based on:

- (a) the price of similar raw materials used in similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group (the "**Comparable Purchase Transactions**") during a period of 12 months prior to the relevant transaction with Tongfang Group (the "**12-Month Purchase Period**") (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and

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- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the price of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

The payment terms for purchase of the goods and services will be set out in separate purchase contracts and shall be on normal commercial terms.

When determining the payment terms, the Group will make reference to prevailing market practices determined based on:

- (a) the terms for similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group during the 12-Month Purchase Period prior to the relevant transaction with Tongfang Group (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the terms of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period, including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

In any event, the payment terms should be no less favorable to the Group than those offered by Independent Third Party suppliers to the Group.

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As an active market participant, the Group will through market analysis, market research, quotations obtained from other Independent Third Party suppliers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and Independent Third Party supplier information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions and cities throughout the PRC.

Since the price determined based on the methods and procedures above and offered by Tongfang Group is no less favourable than those offered by Tongfang Group to third parties, the Directors believe that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its minority Shareholders.

- Terms : a term of three years from 1 January 2017 to 31 December 2019
- Annual Caps : For the year ending 31 December 2017 – RMB150.0 million
For the year ending 31 December 2018 – RMB280.0 million
For the year ending 31 December 2019 – RMB300.0 million

Historical Transaction Amounts

For the year ended 31 December 2016 and for the ten months ended 31 October 2017, the Group procured products under the 2016 Purchase Agreement from Tongfang Group in the amount of approximately RMB11.85 million and RMB11.99 million, respectively.

Existing Annual Caps

The existing annual caps for under the 2016 Purchase Agreement for the years ending 31 December 2017 and 2018 amounted to RMB12.0 million and RMB12.0 million, respectively.

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Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2017, 2018 and 2019, the Company has taken into account, among other things, the following:

- (i) *Historical transaction amount:* The historical procurement amount for the year ended 31 December 2016 and for the ten months ended 31 October 2017 that the Group procured from Tongfang Group under the 2016 Purchase Agreement, and the historical patterns, including seasonality and proportions of payment each year. In particular, residual heat products related procurement is generally carried out in the last quarter of each year, and generally towards the end of December as heating related work has the highest demand during the winter months. Considering the above, the Group expects that an appreciable portion of purchases under the 2017 Purchase Agreement for the year ending 31 December 2017 will be procured by the Group towards the end of 2017;
- (ii) *Forecasted procurement amount:* The forecasted procurement amount for the years ending 31 December 2017, 2018 and 2019 is estimated to be RMB148.0 million, RMB260.4 million and RMB276.5 million respectively. Such forecasted procurement amount is based on expected demand for products and services with references to historical amounts and expected business growth. In particular, the Group has temporarily suspended industrial residual heat projects in 2015 to optimize its structure and reorganize the resources of its business after the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. The optimization and reorganization has been completed in 2017 and the industrial residual heat projects have recently recommenced. As such, the Group is expected to procure products such as heating pumps from Tongfang Kawasaki. The procurement amounts for the recommenced industrial residual heat projects are expected to contribute to a significant portion of the increase in the procurement amounts as compared to previous years. Furthermore, it is expected that the services to be provided by Tongfang Group will increase due to the business growth of the Group relating to energy management, energy saving and environmental protection business. Furthermore, the Group is expected to increase the procurement of products from Tongfang Group for the year ending 31 December 2017 as a result of the business growth stated above. The procurement of these products and services are assumed to increase at a rate of approximately 20.0% for each of the years ending 31 December 2018 and 2019 based on the expected growth of the business and the targeted growth rate of the Group. Considering the above, the Group expects that the procurement amounts from the 2017 Purchase Agreement for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase; and
- (iii) *trends of increases of procurement costs:* the expected increase in procurement costs for products and services based on historical patterns. Considering the expected increase in procurement costs, the Group expects that the price and therefore total procurement amounts under the 2017 Purchase Agreement will correspondingly increase.

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Changes in the Factors Affecting the Determination of the Annual Caps

The Group considers that the increase in annual caps is justified due to the following changes in the factors affecting the determination of the annual caps described above as compared to those considered by the Company at the time of the 2016 Purchase Agreement:

- (i) *Forecasted procurement amount:* The forecasted procurement amount of the Group is expected to increase, based on (a) the optimization and reorganization of the resources of the Group leading to the recommencement of the Group's industrial residual heat projects; and (b) the business growth of the Group relating to energy management, energy saving and environmental protection business; and
- (ii) *Expected growth of procurement Tongfang Group for those related products and services:* Apart from the recommencement of the Group's industrial heat projects and the expected business growth of the Group as described above, from the financial year ended 31 December 2013 to the financial year ended 31 December 2016, the revenue of the Group has experienced growth at a compounded annual growth rate of approximately 18.2%, whereas the Group's revenue for the 6 months ended 30 June 2017 has experienced a year-on-year increase of approximately 19.6% as compared to the revenue for the 6 months ended 30 June 2016. Based on the above, the growth of procurements from Tongfang Group is assumed to be approximately 20.0% per year.

Assumptions Made in Determining the Annual Caps

The following assumptions have been made by the Company in determining the annual caps:

- (i) the forecasted procurement amount to Tongfang Group will increase as projected, given the recommencement of the Group's industrial heat projects and the expected business growth of the Group; and
- (ii) the growth rate for purchases from Tongfang Group will be approximately 20.0% per year. The assumed growth rate is determined based on (a) the CAGR of approximately 18.2% for the Group's revenue from the financial years ended 31 December 2013 to the financial year ended 31 December 2016; (b) the year-on-year increase of approximately 19.6% of the Group's revenue for the 6 months ended 30 June 2017 compared to the 6 months ended 30 June 2016; and (c) the assumption that the gross profit margin of the Group will remain at a similar level compared to previous years.

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Reasons for and benefits of the 2017 Purchase Agreement

The Directors believe that Tongfang Group has proven to be a reliable supplier to the Group at competitive prices, which is important to the operations and business of the Group. The Group has benefited from working with Tongfang Group in the past. Given the mutual beneficial relationship between Tongfang Group and the Group, the Directors, including the independent non-executive Directors, are of the view that the 2017 Purchase Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROLS

The independent non-executive Directors and the auditors of the Company will review the transactions under each of the 2017 Non-exempt CCT Agreements annually to ensure that the 2017 Non-exempt CCT Agreements is entered into in the ordinary course of business of the Company, its terms are fair and reasonable and on normal commercial terms. Furthermore, the finance department of the Group will continuously monitor the transactions under the 2017 Non-exempt CCT Agreements against the approved Annual Caps.

The Group has also adopted specific internal control and risk management measures for the transactions contemplated under each of the 2017 Business Arrangements Agreement, the 2017 Sales Agreement and the 2017 Purchase Agreement.

The 2017 Business Arrangements Agreement

Pursuant to the 2017 Business Arrangements Agreement, the Group has the right but not the obligation to require THTF to facilitate the Intelligent Rail Transit, Building and Urban Heating Network Businesses in the manners set out above. The Group has adopted the following internal control measures in relation to the 2017 Business Arrangements Agreement:

- (i) in order to monitor the transfer of payments to and from THTF, THTF maintains a separate bank account for all receipts and payments related to the Nominee Projects. This bank account, although held under the name of THTF, is controlled by the Group, and THTF has no control over or access to it. For payments from the customers of the Nominee Projects, such funds will be paid directly into the said bank account. The finance department of the Group will monitor the invoices to and payments from the customers to ensure that accurate payment has been effected. On the other hand, once invoices have been issued by the suppliers of the Nominee Projects to THTF, THTF will forward the invoices to the finance department of the Group for review. If the finance department considers the amount stated in the invoices to be accurate, it will approve and effect payments to the relevant suppliers from the said bank account directly;

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- (ii) in order to monitor the amount of transfers between THTF and the Group against the relevant annual caps, at the start of each month, the sales and procurement departments of the Intelligent Rail Transit, Building and Urban Heating Network Businesses will inform the respective operation departments of the projected transfer amounts expected to take place under the 2017 Business Arrangements Agreement for the month. The operation departments will, after reviewing the projected transfer amounts, alert the finance department of the Group and provide it with a breakdown of the total projected transfer amounts. The finance department will decide whether to approve the relevant projected transfer amounts after comparing the projected transfer amounts against the amount of annual cap remaining for the year. Once the projected transfer amounts are approved, the operation department will closely monitor the actual transfer amounts against the approved projected transfer amounts, and will alert the finance department of the Group of any differences between the projected and actual transfer amounts. Where the actual transfer amounts will exceed the projected transfer amounts, prior approval from the finance department of the Group must be obtained before the transfer can be effected;
- (iii) to safeguard the entering into of the new sales or supply contracts to which THTF will act as the party, the Group will only recognize contracts (including any amendments of such contracts) the forms of which have been approved by the Group in writing as subject to the 2017 Business Arrangements Agreement, and will manage all such contracts, including keeping original copies of such contracts and all amendments to such contracts, during the course of their terms;
- (iv) the relevant personnel at the Intelligent Rail Transit, Building and Urban Heating Network Businesses responsible for managing sales and supply contracts will, according to their respective functions, including sales, project management, procurement, operation and finance, be responsible for managing these contracts, under the overall supervision of the general manager of the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the senior management of the Group;
- (v) the sales department will continue to be primarily responsible for determining the terms of bids on projects and negotiating the terms of sales contracts with the customers of the Nominee Projects, who are Independent Third Parties, and the procurement department will continue to be responsible for preparing or negotiating supply contracts with the suppliers of the Nominee Projects, who are Independent Third Parties, both of which will be subject to review by the other business functions of the Group, including the finance department and operation departments; and

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- (vi) after the form of the draft contracts and the proposed terms are determined, having taken into account the input from the relevant departments at the Intelligent Rail Transit, Building and Urban Heating Network Businesses and the result of negotiation with the third party customers or suppliers, such contracts will require the approval of the general manager of the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses before the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses request and instruct THTF to enter into such contracts.

The 2017 Sales Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2017 Sales Agreement.

In addition to the internal control measures described in “Consideration and Payment” under the summary of the 2017 Sales Agreement in this letter, the Group has also adopted the following internal control measures to monitor the compliance of the pricing terms under the 2017 Sales Agreement and ensure the Annual Caps approved by the independent shareholders will not be exceeded:

- (i) before the sales department submits a quotation to Tongfang Group, the sales department will report the same to the operation department;
- (ii) the operation department will decide whether to approve the relevant quotation after considering factors such as (a) the status of the relevant project; and (b) the estimated amount of transactions;
- (iii) if the operation department decides to approve the sales contract, it will report the same to the finance department of the Group. The finance department will decide whether to approve the relevant quotation after considering (a) whether the transaction is in compliance with requirements of the relevant Listing Rules; and (b) the amount of annual cap remaining for the year;
- (iv) the sales department will only prepare the relevant quotation to Tongfang Group after it obtains approvals from both the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the finance department of the Group;
- (v) the Group maintains a standardised price list applicable to all customers. The standardised prices of products are determined based on cost-plus pricing with a mark-up rate of usually not less than 20%, taking into account (i) for self-produced products, the production cost; or (ii) for procured products, the procurement cost, and are reviewed and adjusted by the product management department from time to time with reference to changes in the market prices of similar products offered by the Group’s competitors. For ancillary services provided in connection with the products, the standardised service fee is set at

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a percentage, usually 12%, of the quoted product price. Based on the above, the Group considers that the prices in the standardised price list are fair and reasonable. Based on the price as stated in the Group's standardised price list, the sales department will determine the final quotation price and discount after considering factors such as (a) the scale of the contract; and (b) the payment terms. The final quotation price (including discounts, if any) so submitted to Tongfang Group will at least be the same as the price quoted to Independent Third Party customers for similar transactions;

- (vi) if the Group's quotation is accepted by Tongfang Group and the relevant sales contract is signed, the sales department will report the same to the operation department;
- (vii) the operation department will closely monitor the transactions under the relevant sales contract and will report the relevant transaction amounts to the finance department of the Group; and
- (viii) the finance department of the Group will monitor all transactions under the relevant sales contract against the approved annual caps, and will produce a monthly report of the transactions to the management of the Group. It will also continuously review and improve the internal reporting and approval system.

The 2017 Purchase Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2017 Purchase Agreement.

In addition to the internal control measures described in "Consideration and Payment" under the summary of the 2017 Purchase Agreement in this letter, the Group has also adopted the following internal control measures to monitor the compliance of the pricing terms under the 2017 Purchase Agreement and ensure the Annual Caps approved by the independent shareholders will not be exceeded:

- (i) where the procurement department is aware of the need to enter into any new procurement contracts, the procurement department will report the same to the operation department;
- (ii) the procurement department will compare the prices quoted by prospective suppliers, including those submitted by Tongfang Group and other Independent Third Party suppliers, and select the supplier based on the price and suitability of the relevant products;
- (iii) where Tongfang Group is so selected as the supplier, the procurement department will make a report to the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses by providing the relevant information such as the status of the relevant project and the estimated procurement amount;

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- (iv) the operation department will decide whether to approve the relevant procurement contract after considering factors such as (a) the price quoted by Tongfang Group; (b) the price quoted by other suppliers; and (c) the reasonableness of the transaction;
- (v) if the operation department decides to approve the procurement contract, it will report the same to the finance department of the Group. The finance department will decide whether to approve the relevant procurement contract after considering (a) whether the transaction is in compliance with requirements of the relevant Listing Rules; and (b) the amount of annual cap remaining for the year;
- (vi) the procurement department will only enter into the relevant procurement contract with Tongfang Group after it obtains approvals from both the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the finance department of the Group; and
- (vii) the finance department of the Group will monitor all transactions under the relevant procurement contract against the approved annual caps, and will produce a monthly report of the transactions to the management of the Group. It will also continuously review and improve the internal reporting and approval system.

Having considered the above, the Directors are of the view that the above procedures provide sufficient safeguard to ensure that the transactions under each of the 2017 Non-exempt CCT Agreements are entered into in the ordinary course of business of the Company, its terms are fair and reasonable and on normal commercial terms.

LISTING RULES IMPLICATIONS

THTF is a controlling Shareholder and is therefore a connected persons of the Company under the Listing Rules. Accordingly, the 2017 Non-exempt CCT Agreements and the transactions under the 2017 Non-exempt CCT Agreements between the Group and Tongfang Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Reference is made to the 2015 Announcements and Circular. Although no consideration was paid by the Group to THTF in relation to the Existing Future Business Arrangements CCT, the then board of directors of the Company considered it appropriate to subject such transfers to the requirements for continuing connected transactions under Chapter 14A of the Listing Rules, and adopted the annual caps for transfers both to and from the Group under the Existing Future Business Arrangements CCT as its maximum transaction amounts.

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Further, the Group notes from Rule 14A.01 of the Listing Rules and various listing decisions of the Stock Exchange related to continuing connected transactions that the related rules under the Listing Rules aim to ensure that the interests of shareholders as a whole are taken into account by a listed issuer when it enters into transactions with connected persons, in particular to safeguard against connected persons taking advantage of their positions to the detriment of the issuer's minority shareholders. Hence, taking into account (i) the spirit of the Listing Rules relating to connected transactions; (ii) the amount of transfers both to and from the Group and THTF under the 2017 Business Arrangements Agreement; (iii) the status of THTF as a controlling Shareholder; and (iv) the treatment by the Group of the transfers under the existing Future Business Arrangements CCT in 2015, for the transfers under the 2017 Business Arrangements Agreement, the Board considers it appropriate to treat such transfers as connected transactions and continue to subject such transfers to the requirements for continuing connected transactions under Chapter 14A of the Listing Rules, and adopt the stated annual caps for transfers both to and from the Group under the 2017 Business Arrangements Agreement as its maximum transaction amounts, even though no consideration will be paid by the Group to THTF in relation to the 2017 Business Arrangements Agreement.

Since each of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions contemplated under each of the 2017 Non-exempt CCT Agreements is greater than 5%, each of the 2017 Non-exempt CCT Agreements, and the transactions contemplated under these agreements are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Resolutions will be put forth to the Independent Shareholders at the EGM for the Independent Shareholders to consider and approve each of the 2017 Non-exempt CCT Agreements and the respective Annual Caps for the years ending 31 December 2017, 2018 and 2019.

As the transactions under the 2017 Non-exempt CCT Agreements are transactions of a revenue nature in the ordinary and usual course of business of the Company, these transactions do not constitute transactions under Chapter 14 of the Listing Rules.

Transactions with Tongfang Group

The Directors are of the view that based on the following reasons, the Group's transactions with THTF are not extreme:

(i) Decreasing the contracts through THTF

The Company has been actively contracting with the customers from the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses and in the progress of decreasing contracting through THTF for the projects under the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Please refer to "The 2017 Business Arrangements Agreement — Future Development of the Intelligent Rail Transit, Building and Urban Heating Businesses" in this letter for

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details of the number of customers that the Group directly contracted with since the Acquisition Completion Date. Please also refer to “Listing Rules Implications – Plan to Reduce Transactions with Tongfang Group” in this letter for the concrete plan in place to reduce the transactions with THTF.

(ii) The Group does not overly rely on THTF for sales to it or purchases from it

The payments to and from THTF under the Existing Business Arrangements CCT and the 2017 Business Arrangements Agreement are to facilitate the Group to receive payments from customers who are Independent Third Parties for the services that it has performed under the contracts that THTF has entered in its name but undertaken by the Group, and to pay the suppliers who are Independent Third Parties of the relevant projects that THTF has contracted in its name but procured by the Group. Furthermore, as provided in “Listing Rules Implications – Plan to Reduce Transactions with Tongfang Group” in this letter, the Group has concrete plan in place to decrease and minimize contracting through THTF for the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses going forward.

Furthermore, for the payments to and from THTF and the Group under the 2017 Business Arrangements Agreement, THTF is not a customer or supplier of the Group, nor is THTF entitled to any fees or commission for such payments. As disclosed in “Internal Controls – The 2017 Business Arrangements Agreement” in this letter, the bank account where the customers deposits into for the services provided by the Group under the Nominee Projects is controlled and monitored by the Group, and that the payments to settle the suppliers’ invoices are also carried out by the Group. Also, the Group does not rely on THTF to conclude any of the terms of the sales and procurement contracts for the Nominee Projects. The participation of THTF is only in its name to enter into the contracts for the Group in the meantime until such time that the Group can contract with those customers which are unwilling to directly contract with the Group at the moment.

Furthermore, the amount of historical sales to and purchases from THTF as a percentage of the total revenue of the Group were under 10.0% for the years ended 31 December 2015 and 2016, and ten months ended 31 October 2017. Furthermore, for the years ending 31 December 2017, 2018 and 2019, the expected sales to and purchases from THTF range from 6.9% to 13.1% of the total revenue. As such, the Directors consider that the Group does not overly rely on THTF for sales to it or purchases from it for its operations.

(iii) Current arrangement a transitional arrangement

The current arrangement under the Existing Business Arrangements CCT and the 2017 Business Arrangements Agreement is a transitional arrangement given THTF has transferred the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group, as a result, the Acquired Projects would require to be completed as the businesses are ongoing and it is not possible to have a date as a cutoff as the acquisition under the Business and Assets Purchase Agreements was an acquisition of business and not an acquisition of corporate entity.

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Furthermore, despite having over 70 customers who contracted with the Group directly under the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses since the Acquisition Completion Date, there are still a number of customers, especially for the larger projects, which require THTF to contract with them. This is only a transitional and temporary arrangement.

(iv) Mutual and complementary arrangement

The arrangements under the Existing Business Arrangements CCT and 2017 Business Arrangements Agreement are mutual and complementary between THTF and the Group. The contracts that THTF has entered into since the Acquisition Completion Date are those contracts that the customers have yet to agree to execute such contracts directly with the Group. If THTF did not enter into those contracts in its name for the Group, the Group will have little opportunity to work in those projects and to generate revenue and profit from those projects. Also, THTF, as the contractor of the contracts for the Nominee Projects and the legal debtors for the purchases for the Nominee Projects, would also need the arrangements under the 2017 Business Arrangements Agreement to transfer its risks to the Group whereby the Group is the actual service provider and debtor for the Nominee Projects. Furthermore, on the part of THTF, although THTF does not take any additional fees for the transfers to and from THTF and the Group for the Existing Business Arrangements CCT and the 2017 Business Arrangements Agreement, THTF, as the controlling Shareholder, has benefits as a Shareholder for the performance of the Company. As such, such arrangement is mutual and complementary between THTF and the Group.

Also, a number of the larger customers of the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses are customers of THTF for its operations. Based on the internal requirements of some these larger customers, they cannot directly engage the Group at the moment. As such, these customers have requested THTF to participate in the construction projects. Since THTF has provided non-compete undertakings under the Business and Assets Purchase Agreements to the Group to not compete in the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses, THTF cannot participate in such projects as it would be a competition with the Group. As such, for the benefit of the on-going business relationship and in the meantime, THTF would need the Group to provide the services for these Nominee Projects that are entered in THTF's name since the Group cannot directly enter into those contracts at the moment, and the Group will negotiate and conclude the terms and conditions of the contracts to be entered into to protect its interests.

(v) The Group is capable of generating revenue independent of THTF

The Group is capable to generating revenue independently of THTF. The revenue expected to be generated by the Group independent of THTF (excluding all sales to THTF and revenue to be generated from the Nominee Projects) is expected to be at least RMB773.2 million, RMB962.4 million and RMB1,474.8 million for the years ending 31 December 2017, 2018 and 2019, respectively.

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Independent Operations from THTF

The Directors are of the view that the Company is able to carry on its business and operations independently of THTF based on the following reasons:

- (i) *Sales to and purchases from Tongfang Group are immaterial, and that arrangements for the Intelligent Rail Transit, Building and Urban Heating Businesses are transitional*

As provided above in “Listing Rule Implication – Transactions with Tongfang Group”, the revenue to be generated from and the purchases to be procured from Tongfang Group for the years ending 31 December 2017, 2018 and 2019 are not material to the Group, and payments to and from THTF and the Group are only to facilitate the receipt of payments for the services that the Group has performed under the contracts that THTF has entered in its name, and to pay the suppliers of the relevant projects that THTF has contracted in its name. Also, some of the accounts receivables and payables are for projects completed in prior years. There are also concrete plans the Company has in place to reduce transactions with Tongfang Group. Please refer to “Listing Rule Implication – Plan to Reduce Transactions with Tongfang Group” below for further information.

- (ii) *Operational independence*

In terms of operations, the Group has its own organizational structure comprised of individual departments, each with specific areas of responsibilities overlooking the Group’s operations, including but not limited to sales department, finance department and operation department. The Company does not rely on Tongfang Group in providing its products and services to its customers for its business. In fact, for all sales and procurement contracts under the Intelligent Rail Transit, Building and Urban Heating Businesses, the Group’s sales and procurement departments are responsible to conclude such contracts directly with the customers and suppliers of the Nominee Projects, respectively. Please see “Internal Controls – The 2017 Business Arrangements Agreement” in this letter for details.

Furthermore, although after the Company has acquired the Intelligent Rail Transit, Building and Urban Heating Businesses, the transitional arrangements under the Existing Future Business Arrangements CCT and the 2017 Business Arrangements Agreement are intended to be in place until such time that the Company has received all outstanding accounts receivables and paid all outstanding accounts payables relating to the Nominee Projects, and in any event, the Company targets to minimize having THTF to enter into contracts for the Group under these businesses. Please refer to “Listing Rule Implication – Plan to Reduce Transactions with Tongfang Group” below for further information.

Also, from the Group’s major customers’ point of view, the Group has been contracting directly with over 70 customers for the acquired Intelligent Rail Transit, Building and Urban Heating Businesses since the Acquisition Completion Date, and that as stated above, the arrangements are in place for the transitional period. The

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Group is gradually minimizing having THTF to enter into contracts for the Group. For the rest of the major customers, the Group is serving and accessing these major customers independently from Tongfang Group.

As from the Group's major suppliers' point of view, suppliers can all be accessible independently from Tongfang Group. For the Nominee Projects, THTF is contracting with the suppliers in its name for the Group primarily due to THTF being the contractor for the Nominee Projects, but the Group can and is able to independently procure from these suppliers in the future.

Please refer to "Internal Controls" in this letter for details of the independent operations of the Group and the internal controls in place to ensure such independent operations.

(iii) Ability to generate business independent of THTF

The Company's businesses are principally operated on a project basis, and therefore its ability to generate business and its reliance on THTF in the Company's Intelligent Rail Transit, Building and Urban Heating Network Businesses is more representatively measured by the number and the value of the new contracts entered into by the Company. Please refer to "The 2017 Business Arrangements Agreement – Nominee Projects Entered into after the Acquisition Completion Date" in this letter for details.

The Company has deployed different strategies when negotiating with existing and new customers. For existing customers, the Company has been educating these customers since the Acquisition Completion Date to contract with the Group directly so as to reduce the transactions through THTF. As for the new customers, the Group believes it is important to first secure the contracts of these new customers in which THTF and the Group have no past business relationship with. The Group's strategy is to allow THTF to contract with these new customers first if such new customers prefer to contract with THTF since THTF has a long operating history in the industry and has built its reputation. The Group will then invest additional time to educate these new customers to directly engage the Group in the future whilst the Group accumulate its operating experience, presence and name in the industry. The Company has been able to independently contract with customers within two years of the Acquisition Completion Date of approximately 76% of the number of contracts and approximately 44% of the contract value of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, which is not the entire business of the Company. This demonstrates that with the entire business being contracted by THTF at the time of the completion of the acquisition under the Business and Assets Purchase Agreements, the Group is able to contract independently with other customers, including new customers, not relying on THTF with good success. Assuming the Company will achieve the same contracting ability independently with the customers and in addition to the plan to reduce transactions with THTF, the Directors believe the Company will be able to reduce its reliance of THTF in its business as a whole.

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As such, although the total amount in aggregate of the transaction amount for the year ending 31 December 2017, 2018 and 2019 with Tongfang Group may appear to be substantial, based on the reasons above, the Directors believe the Company can carry out its business and operation independent of THTF.

Plan to Reduce Transactions with Tongfang Group

The Group has the following concrete plan to reduce its transactions with Tongfang Group:

- (i) as disclosed in the Group's 2016 annual report for the year ended 31 December 2016, the Group has successfully contracted and implemented energy management contracts (EMC) projects, which the Group directly contracts with the customers without THTF's involvement. Furthermore, the EMC project mode will become the Group's future development focus, as disclosed in the Group's 2016 annual report. With the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses being primarily traditional construction contracts, the Directors expect that the contracts that needs to be contracted with THTF will gradually decrease. In the meantime, the Group will use its best endeavor to contract directly with the customers of the Nominee Projects, to reduce the contracts to be entered into through THTF and to grow its EMC project mode to limit contracting through THTF;
- (ii) based on the Group's five-year plan, the Group plans to expand its current sales network to reach a more diverse customer base, to explore other business opportunities to expand and diversify its business, and to search for acquisition opportunities for acquiring companies or business with synergy to expand its business;
- (iii) the Group has implemented internal control measures to monitor all transactions with Tongfang Group. Such measures including the operation department will closely monitor the transactions with Tongfang Group and will report the relevant transaction amounts to the finance department of the Group. The finance department of the Group will monitor all transactions with Tongfang Group and provide a monthly report of the transactions to the management of the Group. In case if any potential transactions will Tongfang Group will exceed the annual cap amount, the finance department will immediately alert the management of the Group and will not proceed with the transactions; and
- (iv) the Directors undertake to the Shareholders that the revenue to be recognised in the Group's consolidated financial statements from contracts entered in the name of THTF for the Group will not exceed 50% of the total revenue of the Group for the corresponding year by 2020 and thereafter.

The Directors believe the plan and measures above will be effective to reduce the transactions of the Group with Tongfang Group, and in the interest of the Company and Shareholders as a whole.

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INFORMATION ABOUT THE GROUP, TECHNOVATOR BEIJING AND TECHNOVATOR ENERGY SAVING

The Group is a leading urban integrated energy saving services provider, which concentrated on the three major business segments, namely smart transportation, smart building and complex and smart energy, to drive the development of the urban integrated energy saving business capitalized on information and intelligence. It provides customers with smart energy management products, solutions and services throughout their full life cycle. The Company was incorporated in Singapore in 2005, whose shares are listed on the main board of the Stock Exchange since 27 October 2011.

Technovator Beijing is a wholly-owned subsidiary of the Company, which was incorporated in the PRC. Technovator Beijing is principally engaged in providing integrated comprehensive energy saving products, solutions and services in the areas including rail transit, building and urban heat supply.

Tongfang Energy Saving is a wholly-owned subsidiary of the Company and is established in the PRC with limited liability. Tongfang Energy Saving is principally engaged in providing energy saving solutions for heating and cooling in areas such as industrial production and building environment with absorption heat pump technology. The main business models of Tongfang Energy Saving are Energy Management Contract (EMC), Engineering, Procurement and Construction (EPC) and sales of products.

Operations Model of the Company's Business

Prior to the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF, the Group was one of the leading provider of integrated and comprehensive urban saving services. At the time, the Group was a leading provider of building energy management and solution services in the PRC, and primarily engaged in the design, manufacturing and distribution of integrated building automation and energy management systems. Furthermore, the energy saving management of the urban infrastructure is always the core of the Group's business, where the Group shares the same source of technology and clientele with the Intelligent Rail Transit, Building and Urban Heating Network Businesses acquired from THTF and has cooperated together in providing system integration project. With the unprecedented historical opportunity for the energy saving industry brought about from the continuous growth in demand for energy saving and emission reduction across the globe and national governments making great efforts in energy-saving and emission reduction, governments and customers of the industry increased the requirements for technical development, energy saving and environmental protection. As such, there was a higher demand for the reasonable use of resources, energy saving and consumption reduction and environmental protection in the domains of intelligent and automation control of energy efficient infrastructure which include the fields of rail transit, building and urban heating network that THTF was engaged in at the time prior the Acquisition Completion Date. The Integrated Rail Transit, Building and Urban Heating Network Businesses provides intelligence integrated solution related to rail transit business, building intelligence integrated solutions which enter around building automation and integrated solutions for heating plant and network. Hence, the Intelligent Rail Transit, Building and Urban Heating Network Businesses

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acquired from THTF were to facilitate the Group to optimize the layout of the industry chain, explore customer's resources, strengthen the Group's urban integrated services and seize more potential business opportunities so as to provide greater driving force and more sources for its future growth.

Since the Acquisition Completion Date, the Group has integrated the Intelligent Rail Transit, Building and Urban Heating Network Businesses acquired from THTF into the Group, which was completed in 2016, with 2017 being the first year of operation after the integration. The Group's current business is divided into three main business segments, namely, smart transportation business, smart building and complex business and smart energy business. For its smart transportation business segment, the Group offers comprehensive capabilities and integrated services that encompass the entire lifecycle of transit solutions, from solutions design, equipment package, installation and commissioning to aftersales services. For its smart building and complex business segment, the Group focuses on high-quality intelligence projects, integrating resources to develop energy saving service and energy saving operation projects. For its smart energy business segment, the Group strives to fully tap into the business synergy of energy production, transportation and distribution, and consumption in the field of urban central heating, while at the same time explore continuous operation models, such as entrusted operation for heating networks and franchised operation, so as to lay a foundation for the continued development of the smart energy business.

To operate the businesses of the three business segments of the Group, the Group possesses its own management team, sales team, procurement team, operations team, research and development team, and that all of its employees providing services for such businesses are employees of the Group. Furthermore, the Group also possesses the required machineries, equipment and technologies for its businesses, which are independent of THTF, including but not limited to intellectual property rights, technical data and information related to patents, software copyrights, proprietary technologies, source codes, technical manuals, and operation manuals. As such, the Directors confirm that the Group possesses all the necessary manpower, knowledge, skills, know-how and resources in order to perform the services required by the customers of the Group (including the customers of Nominee Projects) in all of its three business segments.

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Roles of the Group and Tongfang Group

The Group and Tongfang Group have a number of continuing connected transactions, namely, the transactions contemplated under the 2017 Business Arrangements Agreement, the 2017 Sales Agreement, the 2017 Purchase Agreement and the 2017 Master Agreement. As at the Latest Practicable Date, there are no other kind of continuing connected transactions among the Group and Tongfang Group.

For the transactions contemplated under the 2017 Business Arrangements Agreement, essentially, THTF has no role in the transactions except that it has entered into the underlying sales and procurement contracts for the Nominee Projects for the benefit of the Group. Furthermore, THTF is not entitled to any charge from its involvement under the 2017 Business Arrangements Agreement. Please refer to “The 2017 Business Arrangements Agreement — Reasons for and benefits of the 2017 Business Arrangements Agreement” in this letter for details. As for the role of the Group, the Group handles all matters relating to the Nominee Projects, including but not limited to negotiating of terms and contracts, providing services, monitoring and controlling the payments received and payments made for the Nominee Projects. Please refer to “Internal Controls — The 2017 Business Arrangements Agreement” in this letter for further details of the role of the Group in the transactions.

For the transactions contemplated under the 2017 Sales Agreement and for the provision of products or services under the 2017 Master Agreement, the role of the Group is a supplier and the role of Tongfang Group is a customer, which is not in any way different to the Independent Third Party customers of the Group.

For the transactions contemplated under the 2017 Purchase Agreement and for the procurement of products and services under the 2017 Master Agreement, the role of the Group is a customer and the role of Tongfang Group is a supplier, which is not in any way different to the Independent Third Party suppliers of the Group.

RELATIONSHIP WITH AND INFORMATION ABOUT THTF

THTF, a controlling Shareholder of the Company, is a joint stock limited company established in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code: 600100) since June 1997. THTF and its subsidiaries are engaged in businesses in a number of sectors in the technology industry. The principal businesses of THTF cover the following six sectors: internet services and terminals, public security, intelligent city; energy saving and environment protection, science park, and headquarters and investment. Its internet services and terminal sector includes business groups such as smart chips, hardware terminals and internet content services; its public security sector includes business groups such as security systems, national security and military industry; its intelligent city sector includes business groups such as internet of things; its energy saving and environment protection sector includes business groups such as building energy saving, industrial energy saving, semi-conductor lighting and water supply.

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As at the date of this circular, THTF directly and indirectly through Resuccess owns a total of 278,432,142 Shares, representing approximately 35.49% of the issued Shares of the Company. THTF is a controlling Shareholder and is therefore a connected person of the Company under the Listing Rules.

Historical and Future Transactions with THTF Involvements

The table below sets out the historical amount and percentage of the total revenue of the Company generated with the involvement of THTF (including revenue generated from third party customers of Nominee Projects but whose payments were transferred from THTF to the Group under the Existing Future Business Arrangements CCT) for the years ended 31 December 2015 and 2016 respectively and the ten months ended 31 October 2017, being the latest practicable date:

	For the years ended 31 December				For the ten months	
	2015		2016		ended 31 October 2017	
	<i>RMB</i>	<i>% of total</i>	<i>RMB</i>	<i>% of total</i>	<i>RMB</i>	<i>% of total</i>
	<i>million</i>	<i>revenue⁽¹⁾</i>	<i>million</i>	<i>revenue</i>	<i>million</i>	<i>revenue</i>
Revenue generated from						
Nominee Projects	423.6 ⁽¹⁾	36.6	1,089.7	61.0	651.0	60.4
Revenue generated from THTF	108.3	9.4	47.1	2.6	51.2	4.8
Total revenue generated with						
THTF's involvement	531.9	46.0	1,136.8	63.6	702.2	65.2

Note:

- (1) As disclosed in the 2015 annual report of the Company for the year ended 31 December 2015, the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF were accounted for using merger accounting as the Company and the businesses were under common control. As such, in order to provide a more representative information to illustrate the amount of revenue generated from Nominee Projects through THTF, the total revenue used for the year ended 31 December 2015 represented revenue of the Group excluding the Intelligent Rail Transit, Building and Urban Heating Network Businesses prior to the Acquisition Completion Date, and the revenue generated from Nominee Projects represented revenue from the Nominee Projects since the Acquisition Completion Date.

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The table below sets out the forecasted amount and percentage of the total revenue of the Company expected to be generated with the involvement of THTF (including revenue expected to be generated from third party customers of Nominee Projects but whose payments are to be transferred from THTF to the Group under the 2017 Business Arrangements Agreement) for the years ending 31 December 2017, 2018 and 2019 respectively:

	For the years ending 31 December					
	2017		2018		2019	
	<i>RMB million</i>	<i>% of expected total revenue</i>	<i>RMB million</i>	<i>% of expected total revenue</i>	<i>RMB million</i>	<i>% of expected total revenue</i>
Revenue to be generated from Nominee Projects ⁽¹⁾	1,089.8	54.5	1,123.6	46.8	1,061.4	36.9
Revenue to be generated from THTF ⁽²⁾	137.0	6.9	314.0	13.1	343.8	11.9
Total revenue to be generated with THTF's involvement	1,226.8	61.3	1,437.6	59.9	1,405.2	48.8

Notes:

- (1) The revenue to be generated from Nominee Projects is based on the management's best estimate taking into account the assumptions made in "The 2017 Business Arrangements Agreement – Assumptions Made in Determining the Annual Caps" in this letter.
- (2) The revenue to be generated from THTF is based on the management's best estimate taking into account the assumptions made in "The 2017 Sales Agreement – Assumptions Made in Determining the Annual Caps" in this letter and the expected transaction amount under the 2017 Master Agreement.

Based on the information above, the expected revenue to be generated from the Nominee Projects as a percentage of expected revenue of the Group is expected to be decreasing for the years ending 31 December 2017, 2018 and 2019. Furthermore, save for the large-scale project of RMB750.0 million (including value added tax) under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, which the customer requested THTF to enter into the contract instead of the Group, the annual caps that is required is not as substantial.

The table below sets out the historical amount and percentage of the total revenue of the Company with the involvement of THTF relating to purchases (including purchases from third party suppliers of Nominee Projects but whose payments were transferred from the Group to THTF under the Existing Future Business Arrangements CCT) for the

LETTER FROM THE BOARD

years ended 31 December 2015 and 2016 respectively and the ten months ended 31 October 2017, being the latest practicable date:

	For the years ended 31 December				For the ten months ended 31 October 2017	
	2015		2016		RMB million	% of total revenue
	RMB million	% of total revenue ⁽¹⁾	RMB million	% of total revenue		
Purchases for Nominee Projects	241.9 ⁽¹⁾	20.9	682.3	38.2	583.7	54.2
Purchases from THTF	111.3	9.6	18.6	1.0	21.9	2.0
Total purchases with THTF's involvement	353.2	30.5	700.9	39.2	605.5	56.2

Note:

- (1) As disclosed in the 2015 annual report of the Company for the year ended 31 December 2015, the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF were accounted for using merger accounting as the Company and the businesses were under common control. As such, in order to provide a more representative information to illustrate the amount of revenue for Nominee Projects through THTF, the total revenue used for the year ended 31 December 2015 represented revenue of the Group excluding the Intelligent Rail Transit, Building and Urban Heating Network Businesses prior to the Acquisition Completion Date, and the purchases for Nominee Projects represented purchases for the Nominee Projects since the Acquisition Completion Date.

The table below sets out the forecasted amount and percentage of the total revenue of the Company with the involvement of THTF relating to expected purchases (including expected purchases from third party suppliers of Nominee Projects but whose payments are to be transferred from the Group to THTF under the 2017 Business Arrangements Agreement) for the years ending 31 December 2017, 2018 and 2019 respectively:

	For the years ending 31 December					
	2017		2018		2019	
	RMB million	% of expected total revenue	RMB million	% of expected total revenue	RMB million	% of expected total revenue
Expected purchases for the Nominee Projects ⁽¹⁾	871.9	43.6	898.9	37.5	849.1	29.5
Expected purchases from THTF ⁽²⁾	178.0	8.9	297.0	12.4	321.4	11.2
Total expected purchases with THTF's involvement	1,049.9	52.5	1,195.9	49.8	1,170.5	40.6

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Notes:

- (1) The expected purchases for the Nominee Projects is based on the management's best estimate taking into account the assumptions made in "The 2017 Business Arrangements Agreement — Assumptions Made in Determining the Annual Caps" in this letter.
- (2) The expected purchases from THTF is based on the management's best estimate taking into account the assumptions made in "The 2017 Purchase Agreement — Assumptions Made in Determining the Annual Caps" in this letter and the expected purchases under the 2017 Master Agreement.

Based on the information above, the expected purchases for the Nominee Projects as a percentage of expected revenue of the Group is expected to be decreasing for the years ending 31 December 2017, 2018 and 2019, which is generally in the same trend as the expected revenue to be generated from the Nominees Projects during the same periods.

Non-Competition Agreement

THTF has entered into a non-competition agreement in favour of the Company, pursuant to which for itself and/or on behalf of its associates, controlled subsidiaries, and subsidiaries has undertaken to the Company (for itself or for the benefit of its subsidiaries) that THTF would not and would procure that its associates, controlled subsidiaries, and subsidiaries (except any members of the Group) would not, during the period that the agreement remains effective, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate, or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business, in any form, which is or may be in competition with the current and post-listing business of any member of the Group from time to time at present or after the listing on the Stock Exchange.

Although THTF has entered into the sales and procurement contracts for the Nominee Projects for the Group after the Acquisition Completion Date, in substance, THTF did not carry on, participate, or interested or engage in or acquire or hold any business in any form that is or may be in competition with the Group's business from time to time. This is also the reason for all Nominees Projects, THTF must not provide any of the services and that only the Group should provide such services. The terms of the non-competition agreement is also consistent with the non-competition undertaking that THTF has given under the Business and Assets Purchase Agreements. As such, the Directors are of the view that THTF has complied with the non-competition agreement taking into consideration of the arrangements under the Existing Future Business Arrangements CCT and 2017 Business Arrangements Agreement.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages 108 to 110 of this circular. The EGM will be convened for the purpose of considering and, if thought fit, passing the ordinary resolutions to approve each of the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective proposed Annual Cap amounts in accordance with the requirements of the Listing Rules.

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None of the Directors has a material interest in the 2017 Non-exempt CCT Agreements and therefore no Director has abstained from voting on the board resolutions of the Company to approve the 2017 Non-exempt CCT Agreements and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Listing Rules, at the EGM, THTF, the controlling Shareholder of the Company, and its associates (who as at the Latest Practicable Date own a total of 278,432,142 Shares, representing approximately 35.49% of the issued Shares of the Company) are required to abstain from voting on the ordinary resolutions approving the 2017 Non-exempt CCT Agreements, the transactions contemplated under the agreements and the respective Annual Caps. In view of the interests of THTF, THTF and its associates will abstain from voting on the ordinary resolutions approving the 2017 Non-exempt CCT Agreements, the transactions contemplated under the agreements and the related Annual Caps.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquires, there are no Shareholders who have material interest in the 2017 Non-exempt CCT Agreements and are required to abstain from voting on the resolutions to approve the 2017 Non-exempt CCT Agreements, the transactions contemplated under the agreements and the respective Annual Caps at the EGM.

A form of proxy for use at the EGM is sent to the Shareholders together with this circular. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time for holding of the EGM or adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the EGM or any adjourned meeting thereof should the Shareholders so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the EGM must be taken by poll.

INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the independent board committee (comprising all the independent non-executive Directors) has been formed by the Company to consider the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps, and to advise the independent Shareholders as to whether the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective annual cap amounts are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the independent board committee of the Company and the independent Shareholders on the terms of the 2017 Non-exempt CCT Agreements.

Your attention is drawn to the letter from the independent board committee as set out on page 55 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM.

LETTER FROM THE BOARD

Your attention is also drawn to the letter from Lego Corporate Finance Limited as set out on pages 56 to 102 of this circular, which contains its advice to the independent board committee and the Independent Shareholders in relation to the 2017 Non-exempt CCT Agreements.

RECOMMENDATION

The Directors, including the independent non-executive Directors, after taking into account the advice from Lego Corporate Finance Limited, consider that the transactions under the 2017 Non-exempt CCT Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the independent board committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

By order of the Board
Technovator International Limited
Huang Yu
Chairman



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Stock Code: 1206)

6 December 2017

To the Independent Shareholders

Dear Sir or Madam,

**(1) REVISION OF EXISTING ANNUAL CAPS FOR 2017 AND 2018
AND
(2) NEW 2017 NON-EXEMPT CCT AGREEMENTS IN RELATION
TO CERTAIN CONTINUING CONNECTED TRANSACTIONS**

We refer to the 2017 Announcement and the circular dated 6 December 2017 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise. We, being the independent non-executive Directors, have been appointed as the independent board committee to advise you as a Shareholder in connection with the 2017 Non-exempt CCT Agreements, details of which are set out in the Letter from the Board contained in the Circular.

Having considered the 2017 Non-exempt CCT Agreements, and the advice and opinion of, and the factors and reasons considered by the Independent Financial Adviser in relation thereto as set out on pages 56 to 102 of the Circular, we are of the opinion that (i) the 2017 Non-exempt CCT Agreements (including the Annual Caps) are in the ordinary and usual course of business of the Company, on normal commercial terms and that the terms of the 2017 Non-exempt CCT Agreements (including the Annual Caps) are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the transactions under the 2017 Non-exempt CCT Agreements (including the Annual Caps) are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the 2017 Non-exempt CCT Agreements (including the Annual Caps) and the transactions contemplated thereunder.

Your faithfully

Independent Board Committee

Mr. Fan Ren Da Anthony

Mr. Chia Yew Boon

Ms. Chen Hua

Independent non-executive Directors

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2017 Non-exempt CCT Agreements and the Annual Caps for inclusion in this circular.



6 December 2017

To: *The Independent Board Committee and the Independent Shareholders of
Technovator International Limited*

Dear Sirs or Madams,

**(1) REVISION OF EXISTING ANNUAL CAPS FOR 2017 AND 2018
AND
(2) NEW 2017 NON-EXEMPT CCT AGREEMENTS IN RELATION
TO CERTAIN CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2017 Non-exempt CCT Agreements and the Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 6 December 2017 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the 2015 Announcements and Circular in relation to, among others, the Existing Future Business Arrangements CCT and the related annual caps. Reference is also made to the 2016 Announcement in relation to the continuing connected transactions contemplated under the 2016 Agreements and the related annual caps.

Since the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in October 2015, in order to seamlessly integrate these businesses into the Group, the Group actively optimised its structure and reorganised the resources of its business to fully tap into the business synergy of the acquired businesses and the business of the Group at the time. With the completion of the optimisation and reorganisation of the businesses of the Group in 2017, and with the development and growth of the Group, the Company has a better forecast as to the transactions to be carried out with Tongfang Group for the years ending 31 December 2017, 2018 and 2019. Furthermore, with the continued development and growth of the business of the Group, new and anticipated contracts, market conditions of properties, sales planning, actual operating circumstances of the Group, expansion of building energy-saving market, and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the increase of research and development collaboration between the Group and Tongfang Group, the Board anticipates that there will be a corresponding increase in transactions under the Existing Future Business Arrangements CCT, a corresponding increase in sales from the Group to Tongfang Group and a corresponding increase in purchases by the Group from Tongfang Group. As such, the existing annual caps for transactions under the Existing Future Business Arrangements CCT, for the year ending 31 December 2017, and the existing annual caps for the transactions under the 2016 Agreements for the years ending 31 December 2017 and 2018 will not be able to satisfy the operational needs of the Group and Tongfang Group for the relevant periods.

Therefore, on 1 November 2017, the Group and THTF entered into the 2017 Non-exempt CCT Agreements to revise the respective existing annual caps on substantially the same terms for a term of three years from 1 January 2017 to 31 December 2019. For details of the terms, please refer to paragraphs below with respect to the analysis of the terms of each Annual Caps.

As at the Latest Practicable Date, THTF directly and indirectly through Resuccess owned a total of 278,432,142 Shares, representing approximately 35.49% of the issued Shares. THTF is a controlling Shareholder and is therefore a connected person of the Company under the Listing Rules. Accordingly, the 2017 Non-exempt CCT Agreements and the transactions contemplated thereunder between the Group and Tongfang Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As for the transactions contemplated under the 2017 Business Arrangements Agreement, although no consideration will be paid by the Group to THTF in relation to such business arrangements, given that there will be payments between the Group and THTF pursuant to the 2017 Business Arrangements Agreement, the Board considers it appropriate to subject such payments to the requirements for continuing connected transactions under Chapter 14A of the Listing Rules, and adopt the stated annual caps as the maximum transaction amounts for these transactions.

Each of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions contemplated under each of the 2017 Non-exempt CCT Agreements is greater than 5%, therefore each of the 2017 Non-exempt CCT Agreements, and the transactions contemplated under these agreements are subject to the reporting, announcement, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, has been formed to consider the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps, and to advise the Independent Shareholders as to whether the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the 2017 Non-exempt CCT Agreements and the Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, Tong Fang Group or any of their respective subsidiaries or associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the 2017 Non-exempt CCT Agreements and the Annual Caps and, except for its inclusion in the Circular and for the purpose of the EGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons.

A. Background information of the Group and Tongfang Group

The Group is an urban integrated energy saving services provider, which concentrated on the three major business segments, namely smart transportation, smart building and complex and smart energy, to drive the development of the urban integrated energy saving business capitalised on information and intelligence.

Technovator Beijing is a wholly-owned subsidiary of the Company, which was established in the PRC. Technovator Beijing is principally engaged in providing integrated comprehensive energy saving products, solutions and services in the areas including rail transit, building and urban heat supply.

Tongfang Energy Saving is a wholly-owned subsidiary of the Company and is established in the PRC with limited liability. Tongfang Energy Saving is principally engaged in providing energy saving solutions for heating and cooling in areas such as industrial production and building environment with absorption heat pump technology. The main business models of Tongfang Energy Saving are energy management contract (EMC), engineering, procurement and construction (EPC) and sales of products.

THTF, a controlling Shareholder, is a joint stock limited company established in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code: 600100) since June 1997. THTF and its subsidiaries are engaged in businesses in a number of sectors in the technology industry. The principal business of THTF covers the sectors of (i) internet services and terminals, includes business groups such as smart chips, hardware terminals and internet content services; (ii) public security, includes business groups such as security systems, national security and military industry; (iii) intelligent city, includes business groups such as internet of things; (iv) energy saving and environment protection, includes business groups such as building energy saving, industrial energy saving, semi-conductor lighting and water supply; (v) science park; and (vi) headquarters and investment.

B. The 2017 Business Arrangements Agreement

1. Reasons for and benefits of the 2017 Business Arrangements Agreement

As stated in the Letter from the Board, under the 2017 Business Arrangements Agreement, the Group has the right but not the obligation to require THTF to facilitate the Intelligent Rail Transit, Building and Urban Heating Network Businesses in the manners set out below. The transactions contemplated under the 2017 Business Arrangements Agreement will enable the Group to continue to develop and grow the Intelligent Rail Transit, Building and Urban Heating Network Businesses while the Group is establishing its position in the market under its own name. Although since the completion of the acquisition of the Intelligent Rail

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Transit, Building and Urban Heating Network Businesses in October 2015, a number of projects and contracts have been transferred to the Group or the Group is directly engaged for the new projects and contracts, a number of customers especially those with large-scale projects still wish to deal with THTF in the meantime due to their past relationships. As THTF has been operating for a significant period of time and has built its brand recognition among customers, with its assistance by way of the arrangements under the 2017 Business Arrangements Agreement, the Group can avoid losing potential business opportunities, including to capture the current growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and those large-scale projects where the customers still wish to deal with THTF in the meantime, while building-up the Group's presence and name.

As at the Latest Practicable Date, the Group was still building its presence in the market for the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Also, for some customers who would need time to obtain their own internal approval to engage the Group for the services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the customers may wish to continue to deal with THTF in the meantime due to their history of dealings with THTF. The arrangements under the 2017 Business Arrangements Agreement also cover new projects which may be undertaken by the Group.

As for the transfers from the Group to THTF, those are to facilitate the settlement of the debts related to the Nominee Projects, which are for the payments to the suppliers for the procurement of raw materials, products and services by the Group for the Nominee Projects that THTF has procured for the Group in order for the Group to provide services to the Nominee Projects. Moreover, THTF is not entitled to any additional charge for these payments or procurement. The Group monitors and checks the invoices sent from the suppliers of the Nominee Projects to THTF to ensure its accuracy. Furthermore, all payments of invoices to the suppliers are managed by the finance department of the Group from a separate bank account controlled by the Group, which is in the name of THTF and contains all the monies received from the customers of the Nominee Projects. Please refer to the section headed "Internal Control – The 2017 Business Arrangements Agreement" in the Letter from the Board for further details of the said bank account. Once the payment is paid from the said bank account, it is considered that THTF has paid the outstanding debt and the Group has reimbursed the payment of such debt at the same time. Hence, THTF does not in fact pay on behalf of the Group of any debts related to the Nominee Projects, and all debts of the Nominee Projects are settled by the Group through the balance in the said bank account, being monies of the Group.

Hence, THTF is in name the legal debtor for the debts of the Nominee Projects, which have not been assumed by the Group. All the debts as at the Latest Practicable Date arisen from the requests and needs of the Group in order to procure raw materials, products and services for the Nominee Projects were the Group's costs of sales in order to generate the revenue. In case if THTF has to settle any debts on behalf of the Group for the Nominee Projects, the Group has to reimburse THTF for any amount settled for these debts. As such, the Directors, including the independent non-executive Directors, are of the view that the reimbursement of the

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amounts to THTF for the settlement of debts of the Nominee Projects under the 2017 Business Arrangements Agreement are fair and reasonable to the Company and its Shareholders as a whole. The Directors believe the arrangements under the 2017 Business Arrangements Agreement continue to be an integral part of the operations of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

Considering (i) the 2017 Business Arrangements Agreement and transactions contemplated thereunder is expected to enable the Group to continue to develop and grow its Intelligent Rail Transit, Building and Urban Heating Network Businesses; (ii) with the assistance of THTF by way of the arrangements under 2017 Business Arrangements Agreement, it is expected that the Group can capture the opportunities to undertake large-scale projects while building-up the Group's presence and name; (iii) the continuing connected transactions under the 2017 Business Arrangements Agreement, being payments to be made by THTF to the Group and the payments to be made by the Group to THTF are related to the projects to be undertaken by the Group which are the Group's principal businesses and are expected to generate revenue for the Group; and (iv) THTF does not in fact pay on behalf of the Group of any debts related to the Nominee Projects, and all debts of the Nominee Projects are settled by the Group through the balance in the said bank account, being monies of the Group, we are of the opinion that the entering into of the 2017 Business Arrangements Agreement is within the ambit of the businesses currently run by the Group and is therefore conducted in the ordinary and usual course of the Group's businesses and is in the interests of the Group and the Shareholders as a whole.

Legal impediments to the transfer of legal titles of the Nominee Projects and the risks associated with such impediments

Pursuant to PRC Contract Laws, a party to a contract may, upon obtaining the consent of the other party, assign to a third party its rights and obligations in entirety. As such, the rights and obligations under the relevant contract of the Acquired Projects may only be assigned with consent from the third parties. As at 31 October 2017, 241 of the Acquired Projects of varying sizes were still ongoing, or completed pending final payment. These Acquired Projects were part of the Nominee Projects, and were not assigned to the Group as at 31 October 2017. THTF has been using its best endeavor to obtain the consents from the relevant customers to assign these contracts to the Group but without success. Although THTF has not been able to assign these contracts to the Group, with the Group's perseverance, over 70 customers have directly contracted with the Group since the Acquisition Completion Date relating to the portion of business acquired of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

As the legal titles of the Nominee Projects are with THTF, the Group may be adversely affected if any default arises between third party customers of the Nominee Projects and THTF. In particular, if any disagreement, claim or dispute arising out of the Nominee Project occurs between THTF, as the contracting party of the relevant Nominee Project, and the third party customer in connection with such

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project, THTF will continue to assume the liabilities and legal risks associated with it. However, the Group may nonetheless be adversely affected by the legal consequences even by not participating the legal proceeding directly if unfavorable judgments are obtained against THTF. In order to mitigate the risks associated with having THTF as the contracting party for the Nominee Projects, a number of internal control measures have been put in place. Please refer to “Internal Controls – The 2017 Business Arrangements Agreement” in the Letter from the Board for further details.

2. *Principal terms of the 2017 Business Arrangements Agreement*

The 2017 Business Arrangements Agreement was entered into on 1 November 2017 between subsidiaries of the Company, namely, Technovator Beijing and Tongfang Energy Saving, and THTF in relations to the business arrangements for the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

A summary of the principal terms of the 2017 Business Arrangements Agreement is set out below:

- Subject matter : (i) For the Nominee Projects which THTF continues to use its name for entering into such contracts and/or projects of the Intelligent Rail Transit, Building and Urban Heating Network Businesses that the legal rights and obligations of which cannot be directly transferred to the Group, THTF will assign, sub-contract, delegate or in any other way the parties may mutually agree so that the Group will assume these contracts. The Group will be responsible for performing the work required by the Nominee Projects and entitled to the income from the Nominee Projects. To the extent that the legal rights of THTF under the contracts in respect of any Nominee Projects have not been assigned to the Group, or for any other reasons THTF receives any payment from the customers of any Nominee Projects for any income generated, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation. THTF undertakes to assist the Group to take up the Nominee Projects without any additional compensation, including but not limited to providing any necessary information to the Group and handling the relevant project completion and settlement procedures as necessary;

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- (ii) If debtors of the Nominee Projects settle debts by paying THTF, THTF is required to pay such amount to the Group no later than the balance sheet date of the month in which such amount is received without any additional compensation;
- (iii) THTF to act as the party to supply contracts to procure materials or services from third party suppliers for any projects for the Nominee Projects, THTF will procure the necessary materials and services from the relevant third-party suppliers for the Group upon instruction by the Group, and the Group is required to reimburse THTF for the amount paid by THTF;
- (iv) THTF agrees that the debts which are part of the liabilities of the Nominee Projects that have not been assumed by the Group as the consent from the creditors has not been obtained, THTF will continue to satisfy such debts. In the event that THTF is required to settle such debt with the relevant third party creditors, the Group is required to reimburse THTF for such amount no later than the balance sheet date of the month in which such amount is paid by THTF; and
- (v) THTF will continue to support the Group on the continual development and expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. THTF agrees to provide support and cooperation for the Group for the Intelligent Rail Transit, Building and Urban Heating Network Businesses upon reasonable request from the Group including cooperating with the Group to develop new projects and business opportunities in respect of these businesses, being a party to the relevant agreements to facilitate the Group's conducting of these businesses if necessary, and providing the required information and assistance to complete the relevant projects, in manners similar to the support to be provided by THTF as set out in paragraphs (i) to (iv) above. Such new sales, procurement or project contracts if to be signed by THTF, all of the terms shall be negotiated by the Group.

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By virtue of the arrangements as set out above, to the extent that any Nominee Projects are not capable to be assigned to the Group, THTF will continue to act as the party to such agreements, and will transfer any payments it receives from the relevant customers of these businesses to the Group without any additional charges. As for new project or contracts that it is necessary or desirable for THTF to be a contracting party, THTF may cooperate with the Group in the performance of such contracts for the relevant customers, and transfer any payments it receives from the relevant customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group without any additional charges.

Pricing and payment : THTF will transfer any payments it receives from the relevant projects to the Group without any additional charges, and the full amount received by THTF from third party customers will be transferred to the Group, no later than the balance sheet date of the month in which such amount is received.

THTF will also not be entitled to any additional fees or compensation for settling debts with third party creditors under the 2017 Business Arrangements Agreement, the Group is required to reimburse THTF for the full amount of such payments no later than the balance sheet date of the month in which such amount is paid by THTF.

The prices for new sales contracts to which THTF will act as the party will be negotiated with third party customers based on the price range as indicated by the prices charged by THTF (including those Nominee Projects signed in name of THTF) in at least two projects within the past 12 months with scope of services undertaken and/or for products sold by the relevant Intelligent Rail Transit, Building and Urban Heating Network Businesses which most closely resembles the requirements of the new sales contract concerned.

The prices for the purchase of material and/or services to be procured under supply contracts will be negotiated with third party suppliers based on the price range as indicated by the prices paid by THTF (including those Nominee Projects signed in name of THTF) in at least two purchases within the past 12 months for similar material and/or services.

Term : A term of three years from 1 January 2017 to 31 December 2019

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As confirmed by the Directors and based on our review of the terms of each of the Existing Future Business Arrangement CCT under the Business and Assets Purchase Agreements and the 2017 Business Arrangements Agreement, save for the revision of the annual caps, there was no material change on the terms of the 2017 Business Arrangements Agreement as compared to the terms of the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements. As disclosed in the circular of the Company dated 25 September 2015, other than the Business and Assets Purchase Agreements, the Group and THTF did not enter into any other agreements with respect to the Existing Future Business Arrangements CCT. The 2017 Business Arrangements Agreement has been prepared and entered into to include all the material terms of the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements. Furthermore, the 2017 Business Arrangements Agreement also includes the annual caps for the transaction contemplated under the agreement for the years ending 31 December 2017, 2018 and 2019. The Directors further confirm, and we concur that save for changes to the relevant annual caps as disclosed above and drafting and language changes, which are immaterial in relation to the transactions contemplated under the 2017 Business Arrangements Agreement, there are no differences between the Existing Future Business Arrangements CCT under the Business and Assets Purchase Agreements as disclosed in the circular of the Company dated 25 September 2015 and in the 2017 Business Arrangements Agreement.

Under the 2017 Business Arrangements Agreement, THTF will not be entitled to any additional fees or compensation for transferring payments received from third party customers to the Group, and the full amount received by THTF from third party customers will be transferred to the Group, no later than the balance sheet date of the month in which such amount is received.

Similarly, THTF will not be entitled to any additional fees or compensation for settling debts with third party creditors under the 2017 Business Arrangements Agreement, and the Group is required to reimburse THTF for the full amount of such payments no later than the balance sheet date of the month in which such amount is paid by THTF.

The prices for new sales contracts to which THTF will act as the party will be negotiated with third party customers based on the price range as indicated by the prices charged by THTF (including those Nominee Projects signed in name of THTF) in at least two projects within the past 12 months with scope of services undertaken and/or for products sold by the relevant Intelligent Rail Transit, Building and Urban Heating Network Businesses which most closely resembles the requirements of the new sales contract concerned. The prices for the purchase of material and/or services to be procured under supply contracts will be negotiated with third party suppliers based on the price range as indicated by the prices paid by THTF (including those Nominee Projects signed in name of THTF) in at least two purchases within the past 12 months for similar material and/or services.

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As advised by the management of the Group, a price range indicated by only two projects over a period of 12 months is representative and sufficient for the Group to determine new contract price, considering: (i) the prices for new sales contracts or supply contracts will be negotiated directly between the Group and customers or suppliers who are Independent Third Parties; (ii) THTF will not involve in the negotiation of contract prices and will only act as the party of the sales contracts and supply contracts in relation to the Nominee Projects under the instructions of the Group; (iii) such pricing basis is in line with the pricing/purchase policy of the Group's sales contracts and supply contracts for other energy saving projects signed in the name of the Group's subsidiaries, such that the pricing basis of the Group's projects are the same with or without the arrangement with THTF under the 2017 Business Arrangements Agreement; (iv) the nature of the new sales contracts or supply contracts are project-based, the scope of which will not be identical to the scope of services and/or products supplied/purchased under other previous projects of the relevant Intelligent Rail Transit, Building and Urban Heating Network Businesses; (v) since the sales contracts and supply contracts are project-based, there will not have many similar projects in a short period of time which can be taken as a reference of contract price; (vi) the price range of at least two similar projects will be served as an indication of new contract price which is still subject to adjustment by the Group after considering the project size, project duration, payment terms, credit of customers or suppliers, project location, and other specific requirements from the customers or suppliers; and (vii) the prices of products supplied and services provided by the Group are also determined based on the Group's internal pricing policy which will not change and therefore, would not lead to a significant contract price fluctuation within a period of 12 months.

Considering (i) the prices for new sales contracts will be negotiated directly between the Group and customers or suppliers who are Independent Third Parties; (ii) THTF will not involve in the negotiation of contract prices and will only act as the party of the sales contracts and supply contracts in relation to the Nominee Projects under the instructions of the Group; (iii) the pricing basis of the Group's energy saving projects are the same with or without the arrangement with THTF under the 2017 Business Arrangements Agreement; (iv) the price range of at least two similar projects will be served as an indication of new contract price which is still subject to adjustment by the Group considering the nature of the new sales contracts or supply contracts are project-based, the scope of which will not be identical to the scope of services and/or products supplied/purchased under other previous projects of the relevant Intelligent Rail Transit, Building and Urban Heating Network Businesses and there will not have many similar projects in a short period of time which can be taken as a reference of contract price; and (v) the prices of new sales contracts and purchase contracts are determined based on the Group's internal pricing policy which will not change and therefore, would not lead to a significant contract price fluctuation within a period of 12 months, we consider the price of the new sales contracts and supply contracts being determined based on a price range of at least two prior projects over a period of 12 months is representative, sufficient, fair and reasonable.

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Considering that (i) the prices and terms of new sales contracts and supply contracts will be negotiated directly between the Group and potential customers and suppliers, which are Independent Third Parties; (ii) THTF will only sign the contracts under the Intelligent Rail Transit, Building and Urban Heating Network Businesses under the instructions of the Group; (iii) THTF will not be entitled to any additional fees or compensation for transferring payments received from third party customers or settling debts with third party creditors; and (iv) the Group will receive from or reimburse THTF for the full amount of relevant payments no later than the balance sheet date of the month in which such amount is received or paid by THTF, we consider the terms of the 2017 Business Arrangements Agreements are on normal commercial terms or better and in the ordinary and usual course of business of the Company.

As disclosed in the Letter from the Board, pursuant to the 2017 Business Arrangements Agreement, the Group has the right but not the obligation to require THTF to facilitate the Intelligent Rail Transit, Building and Urban Heating Network Businesses in the manners set out above. The Group has adopted the following internal control measures in relation to the 2017 Business Arrangements Agreement:

- (i) in order to monitor the transfer of payments to and from THTF, THTF maintains a separate bank account for all receipts and payments related to the Nominee Projects. This bank account, although held under the name of THTF, is controlled by the Group, and THTF has no control over or access to it. For payments from the customers of the Nominee Projects, such funds will be paid directly into the said bank account. The finance department of the Group will monitor the invoices to and payments from the customers to ensure that accurate payment has been affected. On the other hand, once invoices have been issued by the suppliers of the Nominee Projects to THTF, THTF will forward the invoices to the finance department of the Group for review. If the finance department considers the amount stated in the invoices to be accurate, it will approve and effect payments to the relevant suppliers from the said bank account directly;
- (ii) in order to monitor the amount of transfers between THTF and the Group against the relevant annual caps, at the start of each month, the sales and procurement departments of the Intelligent Rail Transit, Building and Urban Heating Network Businesses will inform the respective operation departments of the projected transfer amounts expected to take place under the 2017 Business Arrangements Agreement for the month. The operation departments will, after reviewing the projected transfer amounts, alert the finance department of the Group and provide it with a breakdown of the total projected transfer amounts. The finance department will decide whether to approve the relevant projected transfer amounts after comparing the projected transfer amounts against the amount of annual cap remaining for the year. Once the projected transfer amounts are approved, the operation department will closely monitor the actual transfer amounts against the approved projected transfer amounts, and will alert the finance department of the Group of any differences between the projected and actual transfer

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amounts. Where the actual transfer amounts will exceed the projected transfer amounts, prior approval from the finance department of the Group must be obtained before the transfer can be effected;

- (iii) to safeguard the entering into of the new sales or supply contracts to which THTF will act as the party, the Group will only recognise contracts (including any amendments of such contracts) the forms of which have been approved by the Group in writing as subject to the 2017 Business Arrangements Agreement, and will manage all such contracts, including keeping original copies of such contracts and all amendments to such contracts, during the course of their terms;
- (iv) the relevant personnel at the Intelligent Rail Transit, Building and Urban Heating Network Businesses responsible for managing sales and supply contracts will, according to their respective functions, including sales, project management, procurement, operation and finance, be responsible for managing these contracts, under the overall supervision of the general manager of the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the senior management of the Group;
- (v) the sales department will continue to be primarily responsible for determining the terms of bids on projects and negotiating the terms of sales contracts with the customers of the Nominee Projects, who are Independent Third Parties, and the procurement department will continue to be responsible for preparing or negotiating supply contracts with the suppliers of the Nominee Projects, who are Independent Third Parties, both of which will be subject to review by other business functions of the Group, including the finance department and operation departments; and
- (vi) after the form of the draft contracts and the proposed terms are determined, having taken into account the input from the relevant departments at the Intelligent Rail Transit, Building and Urban Heating Network Businesses and the result of negotiation with the third party customers or suppliers, such contracts will require the approval of the general manager of the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses before the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses request and instruct THTF to enter into such contracts.

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We have reviewed the aforesaid internal control policies and discussed with the management of the Group with respect to the monitoring of the transactions under the 2017 Business Arrangements Agreements. Considering (i) a separate bank account under the name of THTF and controlled by the Group is used to monitor and settle the payments from the customers and to the suppliers of relevant projects; (ii) the sales and procurement departments and the operation departments of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and the finance department of the Group will work together to review and monitor the relevant transfers; (iii) the Group will manage relevant contracts on its own; (iv) the relevant personnel at the Intelligent Rail Transit, Building and Urban Heating Network Businesses will manage the sales and supply contracts under the supervision of their general manager and senior management of the Group; (v) the sales department and the procurement department will be primarily responsible for negotiating the terms of sales contracts and supply contracts respectively; (vi) relevant contracts will require approval from general manager of Intelligent Rail Transit, Building and Urban Heating Network Businesses before instructing THTF to enter into such contracts; and (vii) proper checking on contracts and transactions will be performed given the above internal control measures; we consider that different functions and duties are clearly segregated among different departments and personnel and that proper checks and approvals are required to monitor the transactions, accordingly we are of the view that the aforesaid internal controls are sufficient to monitor the transactions among the Group, THTF, the future customers and/or suppliers under the 2017 Business Arrangements Agreement.

Having considered (i) the above internal controls of the Intelligent Rail Transit, Building and Urban Heating Network Businesses regarding the pricing and payment terms of sales and supply contracts; (ii) THTF takes a passive role under the 2017 Business Arrangements Agreement; and (iii) THTF will not be entitled to any additional fee or compensation for any transactions between the Group and THTF under the 2017 Business Arrangements Agreement, we are of the opinion that the pricing and payment terms of the transactions among the Group and THTF and/or the future customers and/or suppliers under the 2017 Business Arrangements Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the Existing Future Business Arrangements CCT for the years ended 31 December 2015 and 2016 and the year ending 31 December 2017 amounted to RMB338.0 million, RMB778.0 million and RMB874.0 million, respectively, for the payments transferred by THTF to the Group; and RMB238.0 million, RMB622.0 million and RMB700.0 million, respectively, for the payments transferred by the Group to THTF (the “Existing Annual Cap(s) for Business”).

The table below sets out the actual aggregate amount of payments transferred by THTF to the Group and the payments transferred by the Group to THTF under the Existing Future Business Arrangement CCT for the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017, and the utilisation rates of the Existing Annual Caps for Business during the respective years/period:

	For the year ended 31 December 2015		For the year ended 31 December 2016		For the ten months ended 31 October 2017	
	Actual amount RMB million	Utilisation rate (Note) %	Actual amount RMB million	Utilisation rate (Note) %	Actual amount RMB million	Utilisation rate (Note) %
Payments transferred by THTF to the Group	298.8	88.4	771.5	99.2	637.5	72.9
Payments transferred by the Group to THTF	112.5	47.3	532.0	85.5	654.0	93.4

Note: The utilisation rate is derived by dividing the amount of actual payments in each of the years ended 31 December 2015 and 2016 and ten months ended 31 October 2017 by the Existing Annual Caps for Business.

As advised by the management of the Group, the transaction amount for the year ending 31 December 2017 is expected to exceed the Existing Annual Caps for Business. With reference to the utilisation rates as tabulated above, we noted that the Company has substantially utilised the Existing Annual Caps for Business for the payments transferred by THTF to the Group and payments transferred by the Group to THTF for the year ended 31 December 2016 with the utilisation rates reaching about 99.2% and 85.5%, respectively.

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As advised by the management of the Group, even though the utilisation rate of Existing Annual Cap for Business for payment transferred by THTF to the Group for the ten months ended 31 October 2017 was only approximately 72.9%, it is expected that such annual cap will be exceeded taking into account the seasonality of payments pattern between THTF and the Group. We have reviewed the payment schedule of transfers by THTF to the Group under the Existing Future Business Arrangements CCT prepared by the management of the Group and noted that during the year ended 31 December 2016, approximately 44% of the total payment transferred by THTF to the Group for that year were made during the last quarter.

3.2 *Basis and assessment of the revised annual caps*

The table below sets out the proposed revised annual caps for payments to be transferred by THTF to the Group and the payments to be transferred by the Group to THTF under the 2017 Business Arrangements Agreement for each of the years ending 31 December 2017, 2018 and 2019 (the “**Revised Annual Cap(s) for Business**”):

	For the year ending 31 December		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Payments to be transferred by THTF to the Group	1,200.0	1,500.0	1,600.0
Payments to be transferred by the Group to THTF	1,000.0	1,250.0	1,300.0

As set out in the Letter from the Board, in arriving at the Revised Annual Caps for Business, the Company has taken into account the following factors:

(i) The sales data:

The Company has considered the sales data of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, including the contract price of the existing projects, contracts in negotiation and bidding of projects participated by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, and estimated growth for each of the businesses (as further detailed in paragraph (v) below). In particular, a large-scale project (the “**Large-scale Project**”) awarded in September 2017 under the Intelligent Building Business with a contract period of approximately two years is expected to be completed by the end of 2019 with a total contract price of approximately RMB750 million (including value added tax) with THTF as the contracting party since the Group has yet to obtain the relevant approval from the customer to directly supply to such customer. This Large-scale Project is expected to

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contribute to a considerable portion of the increase in payments under the Nominee Projects to be received and to be settled by the Group in the coming years. Furthermore, with the growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the Group expects that there will be an increase in revenue generated from these businesses, and as a result, it expects that the amount to be transferred from THTF to the Group will increase as a result.

We have reviewed the schedule of contracts which are currently ongoing or under negotiation and are likely to be undertaken by the Group for the Intelligent Rail Transit, Building and Urban Heating Network Businesses. We have also reviewed the major terms provided by the Company of the Large-scale Project and noted that it has a contract price of approximately RMB750 million and relevant payment is expected to last for three years. As advised by the management of the Group, the Large-scale Project was a new project awarded in September 2017 and hence, was expected to lead to increase the amounts to be transferred from THTF to the Group for the years ending 31 December 2017, 2018 and 2019.

- (ii) The historical pattern of payments of contract prices by the Intelligent Rail Transit, Building and Urban Heating Network Businesses' customers:

The amount of fees to be received by the Group from third party customers through THTF during each year is determined with reference to the historical pattern of payments of contract prices, including seasonality and proportions of payments in each year, and a proportion of the aggregate amount under subsisting Nominee Projects and anticipated new projects is allocated to each year at a certain percentage, representing the estimated amount of payments received by the Group each year. Based on the historical payment pattern, majority of the payments from the customers are made in the last quarter, in particular in December, of each year. Considering the above, the Group expects that a significant portion of payments under the Nominee Projects for the year ending 31 December 2017 will be received by the Group towards the end of 2017.

As advised by the management of the Group, a large amount of the projects will recognise project progress towards the end of each year and settle the project payment based on the progress recognised. Hence, the Group would need to revise the Existing Annual Cap for Business for the year ending 31 December 2017 for the potential upcoming large amount of settlement to be made in December 2017. When determining the Revised Annual Caps for Business for the years ending 31 December 2018 and 2019, the Directors considered the Revised Annual Cap for Business for the year ending 31 December 2017, including the potential

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large amount of settlement to be made in December 2017. We have reviewed the historical settlement schedule of payments of contract prices in respect of the Nominee Projects provided by the Company in 2016 and 2017 and sample checked five sales contracts and records of all the payments received from THTF for four selected months in 2016 (being the only full year after the completion of the Business and Assets Purchase Agreements) among the Group, THTF and the customers in relation to the Nominee Projects. We noted that the payment records in these four months correspond to the information contained in the settlement schedule provided by the Company. Accordingly, we considered we have reviewed sufficient information to ascertain the settlement schedule of payment. Based on our review of the aforesaid information, we noted that the fourth quarter had more payments received from THTF in relation to the Nominee Projects as compared to the other three quarters, and most of the payments in the fourth quarter were settled in December. During the year ended 31 December 2016, being the only full year after the completion of the Business and Assets Purchase Agreements, approximately 13%, 16%, 27% and 44% of the total payments received from THTF in relation to the Nominee Projects for the year were settled in the first, second, third and fourth quarter, respectively, where the payments received in the fourth quarter was higher than that for the other three quarters, and approximately 19% of such total payments were settled in December.

- (iii) The historical cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:

The historical cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a percentage of revenue received each year is used to approximate the amount of payments that the Group will pay to THTF to settle debts with third party creditors by reference to the amount of contract price it will receive for the given year. Based on historical invoicing pattern of the Group's projects, majority of the cost of sales are billed in the last quarter of each year for settlement, and the Group settles such payables with THTF in December of each year. Considering the above, the Group expects that a significant portion of payables for the year ending 31 December 2017 under the Nominee Projects will be settled by the Group towards the end of 2017.

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As advised by the management of the Group, the Group would record cost of sales in accordance to the progress of project recognised by the Group's customers toward the end of year, and settle the related payments after the recognition. Based on our review of the historical pattern of payments of purchase in respect of the Nominee Projects in 2016 and 2017 provided by the Company and sample checked the supply contracts and records of all the payments made to THTF for four selected months in 2016 among the Group, THTF and the suppliers in relation to the Nominee Projects, we noted that during the year ended 31 December 2016, approximately 15%, 22%, 26% and 37% of the year's total payment of cost of sales of the Group was recorded during the first, second, third and fourth quarter, respectively, where the payments paid in the fourth quarter was higher than that for the other three quarters, and approximately 13% of the year's total payment of cost of sales of the Group was recorded in December 2016. However, only approximately 5% of the year's total payment transferred by the Group to THTF under the Existing Future Business Arrangements CCT was made in December 2016. As advised by the management of the Group, the lower portion of payments transferred by the Group to THTF was mainly because the year's amount of payment transferred by the Group to THTF is reaching the Existing Annual Cap for Business, and as a cash management measure taken by the Group during the end of 2016, certain amount of payment transferrable by the Group to THTF were settled in January 2017.

- (iv) The trends of the gross profit margin of each of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:

The cost of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a percentage of revenue received each year (as mentioned in paragraph (iii) above) is determined based on the historical gross profit margins of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and taking into account the prevailing trend of such gross profit margins. The projected cost of sales is used to estimate the amount of payables to be settled under the Nominee Projects by the Group.

We have reviewed the schedule of revenue, gross profit and gross profit margin of the Group's Intelligent Rail Transit, Building and Urban Heating Network Businesses for the year ended 31 December 2016 and six months ended 30 June 2017 prepared by the management of the Group, and noted that the overall gross profit margins of the Intelligent Rail Transit, Building and Urban Heating Network Businesses were ranged from approximately 19% to 20% for such year/period. As advised by the management of the Group, it is assumed that for the three years ending 31 December 2019, the overall gross profit margin for such businesses would remain at similar level.

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- (v) The expected growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:

The assumed growth rate of the total contract price for each year is based on the historical growth rates of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, taking into account industry trends and macro-economic factors. In particular, the annual caps for the years ending 31 December 2017, 2018 and 2019 have taken into account of the growth from the expected revenue and cost of sales from the Large-scale Project, and the other contracts and projects of the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole and correspondingly, the cost of sales, are assumed to increase at a rate of approximately 20% for each of the years ending 31 December 2018 and 2019, based on the estimated revenue to be generated each year by reference to the historical growth rate of the revenue and the targeted growth rate of the Group. Considering the above, the Group expects that the payments to be received by the Group under the Nominee Projects for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase.

According to the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”), the Group proactively adjusted its own business structure and business model and stepped into a new state of transformation and update in response to the change of market environment and policy requirements. During the year ended 31 December 2016, the transformation adjustment of the Group began to take effect and the Group recorded an increase in revenue of approximately 5.5% as compared to the prior year. While during the six months ended 30 June 2017, the Group recorded an increase in revenue of approximately 20% as compared to the six months ended 30 June 2016. According to the historical transaction information provided by the management of the Group, we noted that during the six months ended 30 June 2017, the Group recorded an increase in revenue contributed by Intelligent Rail Transit, Building and Urban Heating Network Businesses of approximately 21% as compared to the six months ended 30 June 2016.

We have reviewed the schedule of contracts under Intelligent Rail Transit, Building and Urban Heating Network Businesses which are currently ongoing or under negotiation and are likely to be undertaken by the Group. Based on the contract sum and payment terms of such contracts, the Directors expected that there will be approximately RMB1,150 million, RMB850 million and RMB200 million of payments to be transferred by THTF to the Group, representing approximately 96%, 57% and 13% of the corresponding Revised Annual Caps for Business for each of the years ending 31 December 2017, 2018 and 2019, respectively; and the Directors also expect that approximately RMB940

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million, RMB695 million and RMB140 million payments to be transferred by the Group to THTF, representing approximately 94%, 56% and 11% of the corresponding Revised Annual Caps for Business for each of the years ending 31 December 2017, 2018 and 2019, respectively, would be payable to third party creditors in relation to the aforementioned projects. We have sample checked seven contracts of the Nominee Projects under the Intelligent Rail Transit, Building and Urban Heating Network Businesses outstanding as at the Latest Practicable Date. The expected payments to be received by the Group from such sales contracts together with the Large-scale Project for the years ending 31 December 2017, 2018 and 2019 amount to approximately RMB365 million, RMB567 million and RMB200 million, respectively, together with the actual payments transferred by THTF to the Group for the 10 months ended 31 October 2017 of approximately RMB637.5 million, representing approximately 87%, 67% and 100% of the aforementioned expected total payments amount to be transferred by THTF to the Group under the 2017 Business Arrangements Agreement during the years ending 31 December 2017, 2018 and 2019 based on ongoing and negotiating contracts. Since the expected payments from the sample sales contracts represent a significant portion of the total expected payments to be transferred by THTF to the Group under the 2017 Business Arrangements Agreement during the years ending 31 December 2017, 2018 and 2019 respectively, we consider the number of sample sales contracts checked are sufficient and representative.

As discussed with the management of the Group with respect to the expected payment pattern, we understand that the expected payment amount was estimated by the management of the Group after considering the customers' historical payment pattern and expected project progress. As advised by the management of the Group, the Revised Annual Caps for Business for payment to be transferred by the Group to THTF were estimated with reference to the historical gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses with an amount of buffer of approximately 1% to 2% of estimated payment amount to be transferred by THTF to the Group considered as further discussed below.

We have reviewed the schedule of revenue, gross profit and gross profit margin of the Group's Intelligent Rail Transit, Building and Urban Heating Network Businesses for the year ended 31 December 2016 and the six months ended 30 June 2017 prepared by the management of the Group, and noted that the overall gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses were approximately 20% and 19%, respectively. We noted that based on the projected payments to be transferred by THTF to the Group for the three years ending 31 December 2019, the corresponding estimated payments to be transferred by the Group to THTF accounted for approximately

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81% to 83% of the payment to be transferred by THTF to the Group, representing a gross profit margins of approximately 17% to 19%, which are similar to the overall gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses of approximately 19% and 20% for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively, with the difference of approximately 1% to 2% being the buffer for pricing flexibility. Considering (i) the buffer only represent approximately 1% to 2% of the estimated payment amount to be transferred by THTF to the Group which is minimal; (ii) such buffer may provide flexibility to the Group when determining the prices of relevant projects; and (iii) we have sample checked sales contracts under the Intelligent Rail Transit, Building and Urban Heating Network Businesses and noted that specific project gross profit margin may vary and be lower than 17%, being the low end of the estimated overall gross profit margin adopted in calculating the Revised Annual Caps for Business, we consider that the estimated payment to be transferred by the Group to THTF under the Revised Annual Caps for Business, including the buffer considered, is fair and reasonable.

As stated in the Letter from the Board and further advised by the management of the Group, after the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses by the Group from THTF pursuant to the Business and Assets Purchase Agreements in October 2015, the Group has been taking up relevant projects from THTF. In particular, the Group has taken up a number of the projects in relation to Intelligent Urban Heating Network Business up to now and expect to take up most of such projects from THTF in the coming three years. For the Intelligent Rail Transit Business and Intelligent Building Business, the Group has been taking up some projects and is establishing its position in the market under its own name. However, a number of customers, especially those with large-scale projects, still wish to deal with THTF for the time being considering their past relationships and THTF has been operating for a significant period of time with its well-established brand name. We have reviewed sample contracts and relevant documents provided by the management of the Group and noted that the duration of contract payments under the Intelligent Rail Transit, Building and Urban Heating Network Businesses ranged less than one year to five years. Accordingly, even the Group will gradually take up more and more of the projects in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses in its own name in the coming years, it is expected that the Group will continue to be required to make and receive payments to/from THTF during the three years ending 31 December 2019, especially for the projects with long duration.

To the best knowledge of the Directors, there are also other cases where the customers are in the process of obtaining their internal

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approval to change their supplier from THTF to the Group and hence THTF will continue to be the contract party to the corresponding projects. Meanwhile, the Group need time to build up its own brand name and allow time for the customers to shift their contracts from THTF to the Group. Considering the above, THTF will continue to support the Group on the continual development and expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, including cooperating with the Group to develop new projects and business opportunities, being a party to the relevant agreements to facilitate the Group's conducting of the business with those large-scale projects where the customers still wish to deal with THTF while the Group can build-up its presence and name in the meantime. Accordingly, the Directors expect an increase in the payments to be transferred by THTF to the Group and payments to be transferred by the Group to THTF under the 2017 Business Arrangements Agreement for each of the years ending 31 December 2017, 2018 and 2019.

(vi) Expected payment from customers of completed projects:

A number of Nominee Projects have been completed but pending final payment from the customers. The last payment from the customers may take as long as five years from the date of contract. As such, with the growth of the Group's business, including the acquired Intelligent Rail Transit, Building and Urban Heating Network Businesses, the amount of payment to be received from THTF for the Nominee Projects are expected to increase as a result for the years ending 31 December 2017, 2018 and 2019.

We have sample checked the sales contract and payment invoice of the Nominee Projects and noted that the date of final invoice is approximately five years from the date of contract.

(vii) The expected growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses:

After the Acquisition Completion Date, the Group commenced the integration of the Intelligent Rail Transit, Building and Urban Heating Network Businesses into the businesses of the Group, in particular, into the three business segments of the Group, namely, the smart transport business, smart building and complex business, and smart energy business segments. 2017 marks the first year that the integration is completed and the Company has a more realistic outlook of the annual caps required for the years ending 31 December 2017, 2018 and 2019.

Based on the aforesaid, we consider the bases of determination of the Revised Annual Cap(s) for Business (including the assumptions and

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projections of the projects to be undertaken by the Group) are reasonable. In addition, having considered that (i) the 2017 Business Arrangements Agreement and transactions contemplated thereunder is expected to enable the Group to continue to develop and grow its Intelligent Rail Transit, Building and Urban Heating Network Businesses; (ii) the increase in transaction amount in relation to the Large-scale Project; (iii) the expected increase in transaction amounts with reference to the projects under negotiation and potential new projects and corresponding forecast of future expected income for the respective year estimated in accordance with the assumptions made by the Directors which have been made with due care and consideration and made on an objective and a reasonable basis; (iv) the payments to be transferred by THTF to the Group and payments to be transferred by the Group to THTF represent the revenue to be generated and the corresponding cost for undertaking relevant projects, which falls within the ordinary business of the Group; and (v) such payments and underlying projects will be conducted on normal commercial terms, we consider that the proposed Revised Annual Caps for Business are acceptable.

The Revised Annual Caps for Business were determined by the management based on assumptions including the projects to be undertaken by the Group. Accordingly, we express no opinion as to how closely the actual transaction amounts of the continuing connected transaction in comparison to the Revised Annual Caps for Business.

C. The 2017 Sales Agreement

1. *Reasons for and benefits of the 2017 Sales Agreement*

The Directors believe that maintaining the sales of goods to Tongfang Group has a positive contribution to the operating revenue of the Group, and that Tongfang Group has proven to have a good track record in settling the trade payables to the Group in a timely manner. The Group has benefited from working with Tongfang Group in the past and Tongfang Group's businesses are important to the Group. Given the mutual beneficial relationship between Tongfang Group and the Group, the Directors (other than the independent non-executive Directors, who will form their view after considering the advice of the Independent Financial Adviser) are of the view that the 2017 Sales Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the 2017 Sales Agreement, the Group will sell to Tongfang Group building related application products, equipment and services, which included control security systems, and fire alarm systems. As the sales of products and provision of services by the Group to Tongfang Group are related to the Group's principal businesses and are expected to generate revenue for the Group, we are of the opinion that the entering into of the 2017 Sales Agreement is within the ambit of the businesses currently run by the Group and is therefore conducted in the ordinary and usual course of the Group's businesses and is in the interests of the Group and the Shareholders as a whole.

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2. *Principal terms of the 2017 Sales Agreement*

The 2017 Sales Agreement was entered into on 1 November 2017 between Technovator Beijing and THTF to terminate the 2016 Sales Agreement and to commence a new term for the transactions contemplated under the 2017 Sales Agreement of three years from 1 January 2017 to 31 December 2019.

A summary of the principal terms of the 2017 Sales Agreement is set out below:

Subject matter : Technovator Beijing agreed to sell or procure such other parties agreed by THTF, including members of the Group, to sell building and municipal infrastructure construction related products, equipment and services, which include control security systems, and fire alarm systems to Tongfang Group for a term of three years ending 31 December 2019.

Consideration and payment : The price at which the Group sells such products to Tongfang Group will be determined based on normal commercial terms after arm's length negotiation.

For the sale of ready-made products or the provision of standardised services, the price for such products or services shall be determined based on the pricing terms as offered by the Group no less favorable than those given to Independent Third Parties. The Group shall regularly review such pricing policy.

For the sale of self-produced products or services, the Group shall make reference to transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by the Group are not less favourable than those offered to Independent Third Parties.

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When negotiating the price, the Group will make reference to the following factors:

- (i) the prevailing market rate determined based on:
 - (a) the price of similar products used in similar scale and nature of projects offered by the Group and accepted by Independent Third Party customers (the “**Comparable Sales Transactions**”) during a period of 12 months prior to the relevant transaction with Tongfang Group (the “**12-Month Sales Period**”) (if any), including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers; and
 - (b) if there are no Comparable Sales Transactions within the 12-Month Sales Period, the price of similar products used in similar scale and nature of products offered by the Group and accepted by Independent Third Party customers any time prior to the 12-Month Sales Period, including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers and taking into account the latest market and independent supplier information available to the Group at time of the relevant transaction with Tongfang Group;
- (ii) length of the contracts; and
- (iii) the type, design and expected costs of the products.

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The Group maintains a standardised price list applicable to all customers. The standardised prices of products are determined based on cost-plus pricing with a mark-up rate of usually not less than 20%, taking into account (i) for self-produced products, the production cost; or (ii) for procured products, the procurement cost, and are reviewed and adjusted by the product management department from time to time with reference to changes in the market prices of similar products offered by the Group's competitors. For ancillary services provided in connection with the products, the standardised service fee is set at a percentage, usually 12%, of the quoted product price. Based on the above, the Group considers that the prices in the standardised price list are fair and reasonable. After due consideration of the above factors, the sales department will, based on the price as stated in the Group's standardised price list, determine the final quotation price and discount after considering additional factors such as the scale of the contract and the payment terms.

In any event, the price offered to Tongfang Group should be no less favourable to the Group than that offered by the Group to Independent Third Party customers for products of a similar type, scale and nature of projects and length of contracts.

The payment terms for the products will be set out in separate sales contracts, shall be on normal commercial terms, and determined with reference to prevailing market practices.

Depending on the product type, scale and length of contracts, the payment term may include a deposit and/or instalments which may be payable at the completion of different stages of the contract or after certain deliverables are available or after certain milestones are reached.

In any event, the payment terms should be no less favorable to the Group than those offered by the Group to Independent Third Party customers for products of a similar type, scale and length of contracts.

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As an active market participant, the Group will through market analysis, market research, feedback from customers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and competitor information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced sales and marketing personnel focusing on different regions and cities throughout the PRC.

Term : A term of three years from 1 January 2017 to 31 December 2019

As confirmed by the Directors and based on our review of the terms of each of the 2016 Sales Agreement and the 2017 Sales Agreement, save for the revision of the annual caps and the extension of the products, equipment and services could be provided by the Group to Tongfang Group to cover municipal infrastructure construction related projects, there was no change on the terms of the 2017 Sales Agreement as compared to the 2016 Sales Agreement.

Under the 2017 Sales Agreement, the price at which the Group sells such products to Tongfang Group will be determined based on normal commercial terms after arm's length negotiation. For the sale of ready-made products or the provision of standardised services, the price for such products or services shall be determined based on the pricing terms as offered by the Group no less favorable than those given to Independent Third Parties. For the sale of self-produced products or services, the Group shall make reference to transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by the Group are not less favourable than those offered to Independent Third Parties.

As disclosed in the Letter from the Board, when negotiating the price, the Group will make reference to the following factors:

- (i) the prevailing market rate determined based on (a) the price of similar products used in Comparable Sales Transactions during the 12-Month Sales Period (if any), including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers; and (b) if there are no Comparable Sales Transactions within the 12-Month Sales Period, the price of similar products used in similar scale and nature of products offered by the Group and accepted by Independent Third Party customers any time prior to the 12-Month Sales Period, including but not limited to the most recent relevant transactions offered by the Group and accepted by Independent Third Party customers and taking into account the latest market and independent supplier information available to the Group at time of the relevant transaction with Tongfang Group;

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- (ii) length of the contracts; and
- (iii) the type, design and expected costs of the products.

As advised by the management of the Group, (i) the products supplied or services provided in each project will not be identical to other projects previously undertaken by the Group; (ii) there may not be similar projects in a short period of time which can be taken as Comparable Sales Transactions to determine the price to be offered by the Group, given the Group need to consider project size, project duration, payment terms, credit of customers, project location, and other specific requirements from the customers when selecting the Comparable Sales Transactions and determining the contract price; (iii) the prices of products supplied and services provided by the Group are also determined based on the Group's internal pricing policy which will not change and therefore, would not lead to a significant contract price fluctuation within a 12-month period. Given the above, we consider the selling price being determined with reference of the Comparable Sales Transactions during the 12-Month Sales Period is representative, fair and reasonable.

Depending on the product type, scale and length of contracts, the payment term may include a deposit and/or instalments which may be payable at the completion of different stages of the contract or after certain deliverables are available or after certain milestones are reached. In any event, the payment terms should be no less favorable to the Group than those offered by the Group to Independent Third Party customers for products of a similar type, scale and length of contracts.

As further disclosed in the Letter from the Board, the Group will through market analysis, market research, feedback from customers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and competitor information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced sales and marketing personnel focusing on different regions and cities throughout the PRC.

Considering (i) the Group will determine the product and service prices with reference to Comparable Sales Transactions between the Group and Independent Third Parties; (ii) the products and service price offered by the Group to Tongfang Group shall be not less favourable than those offered to Independent Third Parties; (iii) the prices of the products and services will be determined with reference to the Group's standardised price list applicable to all customers; (iv) payment terms should be determined depending on the product and service type, scale and length of contracts and should be no less favorable to the Group than those offered by the Group to Independent Third Party customers for products of a similar type, scale and length of contracts; and (v) the products and services to be provided to Tongfang Group falls within the ordinary business of the Group, we consider the terms of the 2017 Sales Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company.

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As required under the Listing Rules, the independent non-executive Directors and the auditors of the Company will review the transactions under the 2017 Sales Agreement annually to ensure that the 2017 Sales Agreements are entered into in the ordinary course of business of the Company, its terms are fair and reasonable and on normal commercial terms. As disclosed in the Letter from the Board, the Group has adopted the following internal control measures to monitor the compliance of the pricing terms under the 2017 Sales Agreement and ensure the Annual Caps approved by the Independent Shareholders will not be exceeded:

- (i) before the sales department submits a quotation to Tongfang Group, the sales department will report the same to the operation department;
- (ii) the operation department will decide whether to approve the relevant quotation after considering factors such as (a) the status of the relevant project; and (b) the estimated amount of transactions;
- (iii) if the operation department decides to approve the sales contract, it will report the same to the finance department of the Group. The finance department will decide whether to approve the relevant quotation after considering (a) whether the transaction is in compliance with requirements of the relevant Listing Rules; and (b) the amount of annual cap remaining for the year;
- (iv) the sales department will only prepare the relevant quotation to Tongfang Group after it obtains approvals from both the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the finance department of the Group;
- (v) the Group maintains a standardised price list applicable to all customers. The standardised prices of products are determined based on cost-plus pricing with a mark-up rate of usually not less than 20%, taking into account (i) for self-produced products, the production cost; or (ii) for procured products, the procurement cost, and are reviewed and adjusted by the product management department from time to time with reference to changes in the market prices of similar products offered by the Group's competitors. For ancillary services provided in connection with the products, the standardised service fee is set at a percentage, usually 12%, of the quoted product price. Based on the above, the Group considers that the prices in the standardised price list are fair and reasonable. Based on the price as stated in the Group's standardised price list, the sales department will determine the final quotation price and discount after considering factors such as (a) the scale of the contract; and (b) the payment terms. The final quotation price (including discounts, if any) so submitted to Tongfang Group will at least be the same as the price quoted to Independent Third Party customers for similar transactions;

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- (vi) if the Group's quotation is accepted by Tongfang Group and the relevant sales contract is signed, the sales department will report the same to the operation department;
- (vii) the operation department will closely monitor the transactions under the relevant sales contract and will report the relevant transaction amounts to the finance department of the Group; and
- (viii) the finance department of the Group will monitor all transactions under the relevant sales contract against the approved annual caps, and will produce a monthly report of the transactions to the management of the Group. It will also continuously review and improve the internal reporting and approval system.

Considering (i) the quotation prices prepared by the sales department will be duly checked by the operation department and finance department separately; (ii) the operation department and finance department will regularly monitor the transactions; and (iii) the independent non-executive Directors and the auditors of the Company will review the relevant transactions, we consider that different functions and duties are clearly segregated among different departments and personnel and that proper checks and approvals are required to monitor the transactions, and accordingly we are of the view that the aforesaid internal controls are sufficient to monitor the transactions between the Group and Tongfang Group under the 2017 Sales Agreement.

Having considered (i) the above internal controls regarding the consideration and payment terms under the 2017 Sales Agreement are sufficient to monitor the relevant transactions; (ii) the price offered to Tongfang Group should be no less favourable to the Group than that offered by the Group to Independent Third Party customers for products of a similar type, scale and nature of projects and length of contracts; and (iii) the products and services to be provided to Tongfang Group falls within the ordinary business of the Group, we are of the opinion that the consideration and payment terms of the transactions between the Group and Tongfang Group under the 2017 Sales Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the 2016 Sales Agreement for each of the year ended 31 December 2016 and the years ending 31 December 2017 and 2018 amounted to RMB55.0 million (the "**Existing Annual Cap(s) for Sales**").

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The table below sets out the actual aggregate amount of revenue of the Group contributed by Tongfang Group under the 2016 Sales Agreement for the year ended 31 December 2016 and the ten months ended 31 October 2017 and the utilisation rates of the Existing Annual Caps for Sales during the respective year/period:

For the year ended 31 December 2016		For the ten months ended 31 October 2017	
<i>Actual sales</i>	<i>Utilisation rate</i>	<i>Actual sales</i>	<i>Utilisation rate</i>
<i>RMB million</i>	<i>(Note)</i>	<i>RMB million</i>	<i>(Note)</i>
	%		%
47.1	85.7	51.2	93.1

Note: The utilisation rate is derived by dividing the amount of actual sales in the year ended 31 December 2016 and the ten months ended 31 October 2017 by the Existing Annual Caps for Sales.

As advised by the Company, the transaction amount for the year ending 31 December 2017 is expected to exceed the Existing Annual Caps for Sales. With reference to the utilisation rates as tabulated above, we noted that the Group has substantially utilised the Existing Annual Caps for Sales for the year ended 31 December 2016 and the ten months ended 31 October 2017 with the utilisation rates reaching about 85.7% and 93.1%, respectively.

3.2 *Basis and assessment of the revised annual caps*

The table below sets out the proposed revised annual caps under the 2017 Sales Agreement for each of the years ending 31 December 2017, 2018 and 2019 (the “**Revised Annual Cap(s) for Sales**”):

For the year ending 31 December		
2017	2018	2019
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
120.0	280.0	300.0

As set out in the Letter from the Board, in arriving at the Revised Annual Caps for Sales for the years ending 31 December 2017, 2018 and 2019, the Company has taken into account the following factors:

- (i) Historical transaction amount:

The Directors has considered the Group’s historical sales amount for the year ended 31 December 2016 and the ten months ended 31 October 2017 that contributed by Tongfang Group under the 2016 Sales Agreement, and the historical patterns, including seasonality and proportions of payment made each year. In particular, for energy saving projects, the Group will invoice for progress payment of the projects

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with reference to the work done towards the last quarter each year. Considering the above, the Group expects that an appreciable portion of sales under the 2017 Sales Agreement for the year ending 31 December 2017 will be generated towards the end of 2017.

We have reviewed the historical transaction pattern provided by the Group, and sample checked the sales contracts between the Group and Tongfang Group. We noted that during the years from 2014 to 2016, approximately 47% to 55% of the total sales amount of the year were recorded by the Group during the fourth quarter, and approximately 19% to 30% of the total sales were recorded by the Group in December. Meanwhile, during the year 2016, the Group's total sales amount recorded in the first, second and third quarters ranged from approximately 11% to 20% over the full year's sales amount, which were lower than the portion of sales amount recorded in the fourth quarter.

As further discussed with and advised by the management of the Group, a large amount of the projects will recognise project progress towards the end of each year and settle the project payment based on the progress recognised. Hence, the Group would need to revise the Existing Annual Cap for Sales for the year ending 31 December 2017 for the potential upcoming large amount of settlement to be made in December 2017. When determining the Revised Annual Caps for Sales for the years ending 31 December 2018 and 2019, the Directors have considered the Revised Annual Cap for Sales for the year ending 31 December 2017. In addition, as further discussed below, since certain contracts cannot be undertaken by the Group considering it may exceed the Existing Annual Cap for Sales for the year ending 31 December 2017, such amount of contract and corresponding amount of Revised Annual Caps for Sale has been postponed to the year ending 31 December 2018.

(ii) Forecasted sales amount:

The forecasted sales amount based on discussions with Tongfang Group taking into account of new contracts and projects in the pipeline, including the expected business growth of Tongfang Group for the years ending 31 December 2017, 2018 and 2019, and the new conversion of coal to electricity projects of Tongfang Group and the energy saving related work that are expected to be provided by the Group commencing in 2018, whereby Tongfang Group plans to procure related products and services from the Group. In particular, for the year ending 31 December 2017, the annual cap has taken into account of the current negotiation of certain sales contracts that is expected to be entered into towards the end of December 2017 for delivery commencing in December 2017 primarily for the anticipated business growth of Tongfang Group mentioned above. Furthermore, the growth for the sales to Tongfang Group for these related products and services is

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assumed to increase at a rate of approximately 20% for each of the years ending 31 December 2018 and 2019, based on the factors above and the targeted growth rate of the Group. Considering the above, the Group expects that the sales generated from the 2017 Sales Agreement for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase.

We have reviewed the schedule of sales contracts which are currently ongoing or under negotiation and are likely to be undertaken by the Group. Based on the contract sum and payment terms of such contracts, the Directors expected that the Group will have approximately RMB110 million and RMB87 million sales to Tongfang Group, representing approximately 92% and 31% of the Revised Annual Caps for Sales for each of the years ending 31 December 2017 and 2018, respectively. We have sample checked 11 contracts under the 2016 Sales Agreement. The expected payments to be received by the Group from such sample sales contracts for the years ending 1 December 2017 and 2018 amount to approximately RMB58 million and RMB37 million respectively, representing approximately 52% and 43% of the aforementioned expected total sales to Tongfang Group for the two years based on the ongoing and negotiating contracts. Since the expected payments to be received from the sample sales contracts represent almost half of the total expected sales to Tongfang Group under the 2017 Sales Agreement during the years ending 31 December 2017 and 2018 respectively, we consider such sample size is sufficient and representative. As discussed with the management of the Group with respect to the expected payment pattern, we understand that the expected payment amount was estimated by the management of the Group after considering the customers' historical payment pattern and expected project progress.

To the best of the Director's knowledge, it is also Tongfang Group's intention to expand its business corporation with the Group in the coming years. The Directors are of the view that there will be substantial growth for the domestic energy-saving market in the coming years, considering that China's "13th Five-Year Plan" stated that China aims to lower its energy consumption per unit of GDP by 15% in 2020 as compared to that of 2015. The Directors also consider that China has proposed specific plans for building energy saving, which includes targets set for overall energy saving and separate energy saving measures, drawing out building energy-saving designs and green building standard and the promotion plan. As stated in the 2016 Annual Report and advised by management of the Group, according to the research and forecasts of the third party investigation and survey institute engaged by the Group, China's total building energy-saving will reach 12.1 million tons of standard coal in 2021, corresponding to a market size of RMB73.9 billion in 2021, representing a compound average growth rate ("CAGR") of approximately 24% from 2015 to 2021.

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Accordingly, we consider that the 20% annual growth for each of the years ending 31 December 2018 and 2019 adopted by the Directors in the Revised Annual Caps for Sales is fair and reasonable.

As advised by management of the Group, in addition to factors such as the contracts which are currently ongoing or under negotiation and the expected growth rate of sales from the Group to Tongfang Group which were considered in arriving the Revised Annual Caps for Sales, the impact of time to hold the EGM to approve the 2017 Sales Agreement was also considered when estimating the Revised Annual Caps for Sales. Since the EGM is expected to be held in the last month of 2017 and the current sales amount to Tongfang Group is approaching the limit of the Existing Annual Cap for Sales for the year ending 31 December 2017, the timing of the EGM will affect certain sales amount to Tongfang Group to the extent on whether the sales can be recorded in the last month of 2017 or the first month of 2018. For prudence purpose, when estimating the Revised Annual Caps for Sales, the Company, after discussion with Tongfang Group, held and re-allocated the sales amount of RMB30 million and corresponding annual cap from the year ending 31 December 2017 to the year ending 31 December 2018. Meanwhile, for the contracts which cannot be put on hold, the Company deducted such sales amount of RMB50 million and corresponding annual cap for 2017 from its original estimation, considering the timing of the EGM will lead to a loss of such sales contracts which could be entered into by the Group in November 2017 but would lead to an exceeding of Existing Annual Cap for the year ending 31 December 2017.

(iii) Trends of gross profit margin of products and services:

The expected gross profit margin of products and services of the Group based on historical patterns and the targeted gross profit margin of the Group. The expected gross profit margin is used to estimate the future prices of the products and services to be provided by the Group.

We have reviewed the annual reports of the Company for the years ended 31 December 2015 and 2016, and noted the gross profit margins of the Group were approximately 23% to 27% during the years from 2014 to 2016. As discussed with the management of the Group, we understand from the management that it is targeted that for the three years ending 31 December 2019, the gross profit margin of the Group would remain at a similar level.

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Based on the aforesaid, we consider the bases of determination of the Revised Annual Caps for Sales under the 2017 Sales Agreements (including the assumptions and projections of the projects to be undertaken by the Group) are reasonable. In addition, having considered that (i) the expected business growth of Tongfang Group and its business cooperation with the Group as discussed above; (ii) the expected increase in the Group's sales amounts with reference to the contracts under negotiation and potential new contracts and corresponding forecast of future expected income for the respective year were estimated in accordance with the assumptions made by the Directors which have been made with due care and consideration and made on an objective and a reasonable basis; (iii) the products and services to be provided to Tongfang Group falls within the ordinary business of the Group; and (iv) such supply of products and provisions of services will be conducted on normal commercial terms, we consider that the proposed Revised Annual Caps for Sales are acceptable.

The Revised Annual Caps for Sales were determined by the management based on assumptions including the projects to be undertaken by the Group. Accordingly, we express no opinion as to how closely the actual transaction amounts of the continuing connected transaction in comparison to the Revised Annual Caps for Sales.

D. The 2017 Purchase Agreement

1. *Reasons for and benefits of the 2017 Purchase Agreement*

The Directors believe that Tongfang Group has proven to be a reliable supplier to the Group at competitive prices, which is important to the operations and business of the Group. The Group has benefited from working with Tongfang Group in the past. Given the mutual beneficial relationship between Tongfang Group and the Group, the Directors (other than the independent non-executive Directors, who will form their view after considering the advice of the Independent Financial Adviser) are of the view that the 2017 Purchase Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the 2017 Purchase Agreement, Tongfang Group will sell to the Group wiring, lighting and other products, equipment and systems and services relation to the Group's business of energy management, energy saving and environmental protection. As the procurement of products and services by the Group from Tongfang Group are related to the projects to be undertaken by the Group which are the Group's principal businesses and the Group has been purchasing from Tongfang Group historically, we are of the opinion that the entering into of the 2017 Purchase Agreement is within the ambit of the businesses currently run by the Group and is therefore conducted in the ordinary and usual course of the Group's businesses and is in the interests of the Group and the Shareholders as a whole.

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2. *Principal terms of the 2017 Purchase Agreement*

The 2017 Purchase Agreement was entered into on 1 November 2017 between Technovator Beijing and THTF to terminate the 2016 Purchase Agreement and to commence a new term for the transactions contemplated under the 2017 Purchase Agreement of three years from 1 January 2017 to 31 December 2019.

A summary of the principal terms of the 2017 Purchase Agreement is set out below:

Subject matter : THTF agreed to sell or procure such other parties agreed by Technovator Beijing, including members of Tongfang Group, to sell wiring, lighting and other products, equipment and systems and services relating to the Group's business of energy management, energy saving and environmental protection to the Group for a term of three years from 1 January 2017 to 31 December 2019.

Consideration and payment : The price of such goods and services supplied by Tongfang Group to the Group will be determined based on normal and commercial terms after arm's length negotiations, with reference to the prevailing market price of similar goods and services at the time of a particular transaction, and in any event no less favourable to the Group than those offered by Independent Third Party suppliers to the Group.

The Group shall make reference to not less than two transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by Tongfang Group to the Group are fair and reasonable and similar to those offered by Independent Third Parties.

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The market rate of the goods and services is to be ascertained based on the prevailing market price of the goods and services determined based on:

- (a) the price of similar raw materials used in similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group (the “**Comparable Purchase Transactions**”) during a period of 12 months prior to the relevant transaction with Tongfang Group (the “**12-Month Purchase Period**”) (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the price of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

The payment terms for purchase of the goods and services will be set out in separate purchase contracts and shall be on normal commercial terms.

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When determining the payment terms, the Group will make reference to prevailing market practices determined based on:

- (a) the terms for similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group during the 12-Month Purchase Period prior to the relevant transaction with Tongfang Group (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the terms of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period, including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

In any event, the payment terms should be no less favorable to the Group than those offered by Independent Third Party suppliers to the Group.

As an active market participant, the Group will through market analysis, market research, quotations obtained from other Independent Third Party suppliers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and Independent Third Party supplier information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions and cities throughout the PRC.

Term : A term of three years from 1 January 2017 to 31 December 2019

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As confirmed by the Directors and based on our review of the terms of each of the 2016 Purchase Agreement and the 2017 Purchase Agreement, save for the revision of the annual caps, there was no change on the terms of the 2017 Purchase Agreement as compared to the 2016 Purchase Agreement.

Under the 2017 Purchase Agreement, the price of goods and services supplied by Tongfang Group to the Group will be determined based on normal and commercial terms after arm's length negotiations, with reference to the prevailing market price of similar goods and services at the time of a particular transaction, and in any event no less favourable to the Group than those offered by Independent Third Party suppliers to the Group.

As disclosed in the Letter from the Board, the market rate of the goods and services is to be ascertained based on the prevailing market price of the goods and services determined based on: (a) the price of similar raw materials used in Comparable Purchase Transactions during the 12-Month Purchase Period (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the price of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

The payment terms for purchase of the goods and services shall be on normal commercial terms. When determining the payment terms, the Group will make reference to prevailing market practices determined based on: (a) the terms for similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group during the 12-Month Purchase Period prior to the relevant transaction with Tongfang Group (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the terms of similar products used in similar scale and nature of products offered by Independent Third Party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period, including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers, and taking into account the latest market and Independent Third Party supplier information available to the Group at the time of the relevant transaction with Tongfang Group.

As further disclosed in the Letter from the Board, the Group will through market analysis, market research, quotations obtained from other Independent Third Party suppliers and interactions with other market participants obtain sufficient market intelligence to enable them to ascertain the prevailing market rate and practices as well as the latest market and Independent Third Party supplier information at any point in time. The Company will also continue to take steps to

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keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions and cities throughout the PRC.

Considering (i) the Group will determine the product and service prices supplied by Tongfang Group with reference to Comparable Purchase Transactions between the Group and Independent Third Parties; (ii) the products and service price offered by Tongfang Group shall be no less favourable to the Group than those offered by Independent Third Party suppliers to the Group; (iii) payment terms should be determined with reference to terms of historical similar scale and nature of projects offered by Independent Third Party suppliers and accepted by the Group; and (iv) the products and services to be procured from Tongfang Group would be related to the projects to be undertaken by the Group which falls within the ordinary business of the Group, we consider the terms of the 2017 Purchase Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company.

As required under the Listing Rules, the independent non-executive Directors and the auditors of the Company will review the transactions under the 2017 Purchase Agreement annually to ensure that the 2017 Purchase Agreements are entered into in the ordinary course of business of the Company, its terms are fair and reasonable and on normal commercial terms. As disclosed in the Letter from the Board, the Group has adopted the following internal control measures to monitor the compliance of the pricing terms under the 2017 Purchase Agreement and ensure the Annual Caps approved by the Independent Shareholders will not be exceeded:

- (i) where the procurement department is aware of the need to enter into any new procurement contracts, the procurement department will report the same to the operation department;
- (ii) the procurement department will compare the prices quoted by prospective suppliers, including those submitted by THTF and other Independent Third Party suppliers, and select the supplier based on the price and suitability of the relevant products;
- (iii) where Tongfang Group is so selected as the supplier, the procurement department will make a report to the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses by providing the relevant information such as the status of the relevant project and the estimated procurement amount;
- (iv) the operation department will decide whether to approve the relevant procurement contract after considering factors such as (a) the price quoted by Tongfang Group; (b) the price quoted by other suppliers; and (c) the reasonableness of the transaction;

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- (v) if the operation department decides to approve the procurement contract, it will report the same to the finance department of the Group. The finance department will decide whether to approve the relevant procurement contract after considering (a) whether the transaction is in compliance with requirements of the relevant Listing Rules; and (b) the amount of annual cap remaining for the year;
- (vi) the procurement department will only enter into the relevant procurement contract with Tongfang Group after it obtains approvals from both the operation department at the respective Intelligent Rail Transit, Building and Urban Heating Network Businesses and the finance department of the Group; and
- (vii) the finance department of the Group will monitor all transactions under the relevant procurement contract against the approved annual caps, and will produce a monthly report of the transactions to the management of the Group. It will also continuously review and improve the internal reporting and approval system.

Considering (i) the procurement department will compare the price quote from Tongfang Group and Independent Third Party suppliers and select the supplier based on the price and suitability of the relevant products; (ii) operation department and finance department will approve the selection of suppliers separately; (iii) the operation department and finance department will regularly monitor the transactions; and (iv) the independent non-executive Directors and the auditors of the Company will review the relevant transactions, we consider that different functions and duties are clearly segregated among different departments and personnel and that proper checks and approvals are required to monitor the transactions, and accordingly we are of the view that the aforesaid internal controls are sufficient to monitor the transactions between the Group and Tongfang Group under the 2017 Purchase Agreement.

Having considered (i) the above internal controls regarding the consideration and payment terms under the 2017 Purchase Agreement; (ii) the price of goods and services supplied and the payment terms offered by Tongfang Group to the Group should be no less favourable than those offered by Independent Third Party suppliers to the Group; and (iii) the products and services to be procured from Tongfang Group would be related to the project to be undertaken by the Group which falls within the ordinary business of the Group, we are of the opinion that the consideration and payment terms of the transactions between the Group and Tongfang Group under the 2017 Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the 2016 Purchase Agreement for each of the year ended 31 December 2016 and the years ending 31 December 2017 and 2018 amounted to RMB12.0 million (the “**Existing Annual Cap(s) for Purchase**”).

The table below sets out the actual aggregate amount of purchase made by the Group from Tongfang Group under the 2016 Purchase Agreement for the year ended 31 December 2016 and for the ten months ended 31 October 2017 and the utilisation rates of the Existing Annual Caps for Purchase during the respective year/period:

For the year ended 31 December 2016		For the ten months ended 31 October 2017	
<i>Actual cost</i> <i>RMB million</i>	<i>Utilisation rate</i> <i>(Note)</i> <i>%</i>	<i>Actual cost</i> <i>RMB million</i>	<i>Utilisation rate</i> <i>(Note)</i> <i>%</i>
11.85	98.8	11.99	99.9

Note: The utilisation rate is derived by dividing the amount of actual cost in the year ended 31 December 2016 and ten months ended 31 October 2017 by the Existing Annual Caps for Purchase.

As advised by the Company, the procurement amount for the year ending 31 December 2017 is expected to exceed the Existing Annual Caps for Purchase. With reference to the utilisation rates as tabulated above, we note that the Company has substantially utilised the Existing Annual Caps for Purchase for the year ended 31 December 2016 and the ten months ended 31 October 2017 with the utilisation rates reaching about 98.8% and 99.9%, respectively.

3.2 *Basis and assessment of the revised annual caps*

The table below sets out the proposed revised annual caps under the 2017 Purchase Agreement for each of the years ending 31 December 2017, 2018 and 2019 (the “**Revised Annual Cap(s) for Purchase**”):

For the year ending 31 December		
2017	2018	2019
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
150.0	280.0	300.0

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As set out in the Letter from the Board, in arriving at the Revised Annual Caps for Purchase for the years ending 31 December 2017, 2018 and 2019, the Company has taken into account the following factors:

(i) Historical transaction amount:

The historical procurement amount for the year ended 31 December 2016 and for the ten months ended 31 October 2017 that the Group procured from Tongfang Group under the 2016 Purchase Agreement, and the historical patterns, including seasonality and proportions of payment made each year. In particular, the Group's residual heat projects related procurement is mostly carried out in the last quarter of each year, and mostly towards the end of December as heating related work has the highest demand during the winter months. Considering the above, the Group expects that an appreciable portion of purchases under the 2017 Purchase Agreement for the year ending 31 December 2017 will be procured by the Group towards the end of 2017.

As further discussed with and advised by the management of the Group, a large amount of the projects will recognise project progress towards the end of each year and settle the project payment based on the progress recognised. Hence, the Group would need to revise the Existing Annual Cap for Purchase for the year ending 31 December 2017 for the potential upcoming large amount of settlement to be made in December 2017. When determining the Revised Annual Caps for Purchase for the years ending 31 December 2018 and 2019, the Directors have considered the Revised Annual Cap for Purchase for the year ending 31 December 2017. We have reviewed the historical transaction pattern provided by the Group, and sample checked the supply contracts between the Group and Tongfang Group in 2016 and 2017. We noted that during the years from 2014 to 2016, approximately 37% to 55% of the Group's total purchase were recorded by the Group during the fourth quarter of the year, and approximately 13% to 26% of the total purchase were recorded by the Group in December. Meanwhile, during the year 2016, the Group's total purchase amount recorded in the first, second and third quarters ranged from approximately 15% to 26% over the full year's purchase amount, which were lower than the portion of purchase amount recorded in the fourth quarter.

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(ii) Forecasted procurement amount:

The forecasted procurement amount for the years ending 31 December 2017, 2018 and 2019 is estimated to be RMB148.0 million, RMB260.4 million and RMB276.5 million, respectively. Such forecasted procurement amount is based on expected demand for products and services with references to historical amounts and expected business growth. In particular, the Group has temporarily suspended its industrial residual heat projects in 2015 to optimise its operational structure and reorganise the resources of its business after the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. The optimisation and reorganisation has been completed in 2017 and the industrial residual heat projects have recently recommenced. As such, the Group is expected to procure products such as heating pumps from Tongfang Kawasaki. The procurement amounts for the recommenced industrial residual heat projects are expected to contribute to a significant portion of the increase in the procurement amounts as compared to previous years. Furthermore, it is expected that the services to be provided by Tongfang Group will increase due to the business growth of the Group relating to energy management, energy saving and environmental protection business. Furthermore, the Group is expected to increase the procurement of products from Tongfang Group for the year ending 31 December 2017 as a result of the business growth stated above. The procurement of these products and services are assumed to increase at a rate of approximately 20% for each of the years ending 31 December 2018 and 2019 based on the expected growth of the business and the targeted growth rate of the Group. Considering the above, the Group expects that the procurement amounts from the 2017 Purchase Agreement for the years ending 31 December 2017, 2018 and 2019 will correspondingly increase.

As advised by the management of the Group, even though the optimisation and reorganisation of the Group's Intelligent Rail Transit, Building and Urban Heating Network Business was carried out since 2015 after the acquisition pursuant to the Business and Assets Purchase Agreements, the Directors can only estimate the future transaction amounts of relevant business after the completion of aforementioned optimisation and reorganisation in 2017.

We have reviewed the schedule of procurement contracts which are currently ongoing or under negotiation and are likely to be undertaken by the Group. Based on the contract sum and payment terms of such contracts, the Director expected that the Group will have approximately RMB134 million and RMB110 million procurement from Tongfang Group, representing approximately 89% and 39% of the Revised Annual Caps for Purchase for each of the years ending 31

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December 2017 and 2018, respectively. We have sample checked the only two draft contracts under the 2016 Purchase Agreement that the Group is negotiating as at the Latest Practicable Date. The Company confirms that there are currently no other signed or draft procurement contracts under negotiation as at the Latest Practicable Date. The expected payments to be made by the Group under such sample supply contracts for the years ending 31 December 2017 and 2018 amount to approximately RMB75 million and RMB35 million respectively, representing approximately 56% and 32% of the aforementioned expected total procurement from Tongfang Group for the two years. Since the expected payments to be made under the sample supply contracts represent a significant portion of the total expected procurement from Tongfang Group under the 2017 Purchase Agreement during the years ending 31 December 2017 and 2018 respectively, we consider such sample size is sufficient and representative. As discussed with the management of the Group with respect to the expected payment pattern, we understand that the expected payment amount was estimated by the management of the Group after consider the industrial practice, suppliers historical payment pattern and expected project progress.

(iii) Trends of increases of procurement costs:

The expected increase in procurement costs for products and services were based on historical patterns. Considering the expected increase in procurement costs, the Group expects that the price and therefore total procurement amounts under the 2017 Purchase Agreement will correspondingly increase.

We have discussed with management of the Group and based on the information provided by the management of the Group, the raw materials of the products and services procured by the Group, such as the staff costs, has recorded increases during the past years and expected to record a further growth for the coming years. We have conducted research on the industrial data and noted that according to the National Bureau of Statistics of China, the average salary of staff employed in urban units recorded a CAGR of approximately 14% during the years from 2010 to 2015.

Based on the aforesaid, we consider the bases of determination of the Revised Annual Caps for Purchases under the 2017 Purchase Agreements (including the assumptions and projections of the projects to be undertaken by the Group) are reasonable. In addition, having considered that (i) the completion of the optimisation and reorganisation of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and expected business growth of the Group as discussed above; (ii) the expected increase in transaction amounts with reference to the contracts under negotiation and potential

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new contracts and corresponding forecast of future expected income for the respective year were estimated in accordance with the assumptions made by the Directors which have been made with due care and consideration and made on an objective and a reasonable basis; (iii) the procurement of products and services from Tongfang Group would be related to the projects to be undertaken by the Group which falls within the ordinary business of the Group; and (iv) such procurements of products and provisions of services will be conducted on normal commercial terms, we consider that the proposed Revised Annual Caps for Purchase are acceptable.

The Revised Annual Caps for Purchase were determined by the management based on assumptions including the projects to be undertaken by the Group. Accordingly, we express no opinion as to how closely the actual transaction amounts of the continuing connected transaction in comparison to the Revised Annual Caps for Purchase.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that the 2017 Non-exempt CCT Agreements have been entered into within the ordinary and usual course of the Group's business based on normal commercial terms, and the terms thereof together with the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the 2017 Non-exempt CCT Agreements, the transactions contemplated thereunder (including the respective Annual Caps) at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 13 years of experience in the finance and investment banking industry.

1. RESPONSIBILITY STATEMENT

This document, 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 document 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 document misleading.

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are 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:

Long positions in the Company

Name of Director	Capacity/ Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽³⁾
Mr. Seah Han Leong	Interest in a controlled corporation ⁽¹⁾	8,000,000	1.02%
	Beneficial owner	14,920,000	1.90%
Mr. Zhao Xiaobo	Beneficial owner	1,000,000 ⁽²⁾	0.13%
	Beneficial owner	8,728,000	1.11%
Mr. Liu Tianmin	Beneficial owner	1,000,000 ⁽²⁾	0.13%
	Beneficial owner	500,000 ⁽²⁾	0.06%
Mr. Fan Ren Da Anthony	Beneficial owner	500,000 ⁽²⁾	0.06%
Mr. Chia Yew Boon	Beneficial owner	500,000 ⁽²⁾	0.06%
Ms. Chen Hua	Beneficial owner	500,000 ⁽²⁾	0.06%

Notes:

- (1) Mr. Seah Han Leong is the sole shareholder of M2M Holdings Ltd and hence is deemed to be interested in all the Shares held by M2M Holdings Ltd.
- (2) Shares subject to options under the share option scheme adopted by the Company on 18 May 2012.
- (3) The percentage of interest in the issued share capital of the Company is calculated based on the number of issued Shares without taking into account Shares which may be allotted and issued to all grantees upon their after full exercise of the options under the share option scheme adopted by the Company on 18 May 2012.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Tsinghua Tongfang Co., Ltd (同方股份有限公司)	Beneficial owner	92,000,000	11.73%
	Interest in a controlled corporation ⁽¹⁾	186,432,142	23.76%
Resuccess Investments Limited	Beneficial owner	186,432,142	23.76%

Note:

- (1) Tsinghua Tongfang Co., Ltd (同方股份有限公司) is the sole shareholder of Resuccess Investments Limited and hence is deemed to be interested in all the Shares held by Resuccess Investments Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Mr. Zhao Xiaobo, a Director of the Company, is an assistant to the president of THTF and a general manager of “Digital City Division” of THTF. Mr. Wang Yinghu, a Director of the Company, is the Chief Accountant cum Chief Manager of Financial Management Center (總會計師兼財務管理中心總經理) of THTF. Mr. Huang Yu, a Director of the Company, is a director, vice chairman of the board of directors and chief executive officer of THTF.

3. FURTHER INFORMATION CONCERNING DIRECTORS

(a) Directors’ service contracts

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

(b) Directors’ interest in competing business

As at the Latest Practicable Date, none of the Directors or their respective associate is or was interested in any business apart from the Group’s business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group’s business.

(c) Directors’ interest in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

(d) Directors’ interest in contracts

As at the Latest Practicable Date, there is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2016, the date to which the latest audited financial statements of the Company were made up.

5. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

Lego Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

6. INTERESTS OF EXPERT

As at the Latest Practicable Date, Lego Corporate Finance Limited:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the below documents will be available for inspection during normal business hours at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to and including the EGM date:

- (a) the Business and Assets Purchase Agreements;
- (b) the 2016 Purchase Agreement;
- (c) the 2016 Sales Agreement;
- (d) the 2017 Business Arrangements Agreement;

- (e) the 2017 Master Agreement;
- (f) the 2017 Purchase Agreement;
- (g) the 2017 Sales Agreement;
- (h) a letter of recommendation from the independent board committee, the text of which is set out on page 55 of this circular;
- (i) a letter of advice from Lego Corporate Finance Limited, the text of which is set out on pages 56 to 102 of this circular; and
- (j) the written consent from Lego Corporate Finance Limited referred to in paragraph 5 of this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Stock Code: 1206)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of Technovator International Limited (the “**Company**”) will be held on 21 December 2017 at 11:00 a.m. at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, to pass with or without amendments as an ordinary business the following ordinary resolutions:

ORDINARY RESOLUTIONS

(1) “**THAT**

- (a) the 2017 Business Arrangements Agreement (as defined in the circular of the Company dated 6 December 2017 (the “**Circular**”)) (including the annual caps for the transactions contemplated thereunder) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company (the “**Directors**”) be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the 2017 Business Arrangements Agreement, the annual caps and the transactions contemplated thereunder.”

(2) “**THAT**

- (a) the 2017 Purchase Agreement (as defined in the Circular) (including the annual caps for the transactions contemplated thereunder) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) the Directors be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

expedient to implement and/or give effect to the 2017 Purchase Agreement, the annual caps and the transactions contemplated thereunder.”

(3) **“THAT**

- (a) the 2017 Sales Agreement (as defined in the Circular) (including the annual caps for the transactions contemplated thereunder) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) the Directors be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the 2017 Sales Agreement, the annual caps and the transactions contemplated thereunder.”

By order of the Board
Technovator International Limited
Huang Yu
Chairman

Hong Kong, 6 December 2017

Principal place of business in Hong Kong:

15th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai, Hong Kong

Registered Office:

66 Tannery Lane
#04-10/10A
Sindo Industrial Building
Singapore 347805

As at the date of this notice, the executive directors of the Company are Mr. Zhao Xiaobo and Mr. Seah Han Leong; the non-executive directors are Mr. Huang Yu, Mr. Liu Tianmin and Mr. Wang Yinghu; and the independent non-executive directors are Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua.

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he is the holder of two or more shares, one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company's

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the above meeting or any adjournment thereof.

3. In order to determine the entitlement to attend and vote at the above meeting, the transfer books and register of members of the Company will be closed from Monday, 18 December 2017 to Thursday, 21 December 2017, both days inclusive, during which period no transfer of shares in the Company will be effected. In order to be eligible to attend and vote at the meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 15 December 2017.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.