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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) NEW 2019 AGREEMENTS IN RELATION TO CERTAIN CONTINUING CONNECTED TRANSACTIONS AND (2) 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 3 January 2020 at 10:00 a.m. at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, is set out on pages 110 to 112 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 54, 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:

“2017 Agreements”	collectively, the 2017 Purchase Agreement, the 2017 Sales Agreement, the 2017 Master Agreement and the 2017 Business Arrangements Agreement
“2017 Announcement and Circular”	the announcement of the Company dated 1 November 2017 and the circular of the Company dated 6 December 2017 in relation to, among others, the continuing connected transactions under the 2017 Agreements and the related 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
“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
“2019 Agreements”	collectively, the 2019 Purchase Agreement, the 2019 Sales Agreement, the 2019 Master Agreement and the 2019 Business Arrangements Agreement
“2019 Announcement”	the announcement dated 25 October 2019 in relation to, among others, the 2019 Agreements and the Annual Caps
“2019 Business Arrangements Agreement”	the business arrangements agreement dated 24 October 2019 entered into between Technovator Beijing, Tongfang Energy Saving and THTF
“2019 Master Agreement”	the master agreement dated 24 October 2019 entered into between Technovator Beijing and THTF
“2019 Purchase Agreement”	the purchase agreement dated 24 October 2019 entered into between Technovator Beijing and THTF
“2019 Sales Agreement”	the sales agreement dated 24 October 2019 entered into between Technovator Beijing and THTF

DEFINITIONS

“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
“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 Caps”	proposed annual caps for the continuing connected transactions contemplated under the 2019 Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“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

DEFINITIONS

“controlling shareholder”	has the meaning ascribed thereto under the Listing Rule
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, among other matters, considering and, if appropriate, approving the 2019 Agreements, the transactions contemplated under the agreements and their respective Annual Cap amounts
“Existing Trademark License Agreements”	four trademark license agreements all dated 28 May 2010 entered into between Technovator Beijing and Tongfang, as amended on 4 August 2011, the details of which are set out in the section headed “Continuing Connected Transactions — Exempted Continuing Connected Transactions — 1. License of trademarks by Tongfang to Technovator Beijing” in the prospectus of the Company dated 17 October 2011
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 2019 Agreements
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed by the Securities and Futures Commission of Hong Kong to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2019 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

DEFINITIONS

“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 Agreement
“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”	9 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, 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 the completion date of the acquisitions on 31 October 2015 under the Business and Assets Purchase Agreements 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

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“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.

DEFINITIONS

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.

* *For identification purpose only*



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. Qin Xuzhong (*Chairman*)

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

16 December 2019

To the Shareholders

Dear Sir or Madam,

**(1) NEW 2019 AGREEMENTS IN RELATION TO CERTAIN
CONTINUING CONNECTED TRANSACTIONS
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the 2019 Announcement.

The purpose of this circular is to provide you with (i) further information relating to the 2019 Agreements; (ii) the letter from the Independent Board Committee to the Independent Shareholders in respect of the 2019 Agreements; (iii) the letter from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the 2019 Agreements; and (iv) the notice convening the EGM for the Shareholders to approve each of the transactions contemplated under the 2019 Agreements, and their respective proposed Annual Cap amounts.

* *For identification purpose only*

LETTER FROM THE BOARD

BACKGROUND

Reference is made to the 2017 Announcement and Circular in relation to, among others, the continuing connected transactions contemplated under the 2017 Agreements and the related annual caps.

The Group's acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses pursuant to the Business and Assets Purchase Agreements was completed in October 2015. To facilitate the successful transfer of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF and the future development of these businesses, and 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, the relevant parties entered into the 2017 Business Arrangements Agreement on 1 November 2017. Pursuant to the 2017 Business Arrangements Agreement:

- (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 will act as the party to supply contracts to procure materials or services from third party suppliers for the Nominee Projects and 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;

LETTER FROM THE BOARD

- (iv) THTF agrees that for 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 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.

To accommodate the business needs of the Group as well as to enable the Group to conduct certain transactions of a miscellaneous nature with Tongfang Group, the relevant parties also entered into the 2017 Sales Agreement, the 2017 Purchase Agreement and the 2017 Master Agreement. A summary of these agreements entered into on 1 November 2017 is set out below:

- (i) Technovator Beijing and THTF entered into the 2017 Sales Agreement pursuant to which 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;

LETTER FROM THE BOARD

- (ii) Technovator Beijing and THTF entered into the 2017 Purchase Agreement pursuant to which 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; and
- (iii) Technovator Beijing and THTF entered into the 2017 Master Agreement pursuant to which the Group may provide to or receive from Tongfang Group miscellaneous products and services as may be required to satisfy the operational needs of the Group/Tongfang Group from time to time in the ordinary course of business of the Group in accordance with the terms and conditions of the 2017 Master Agreement for a term of three years from 1 January 2017 to 31 December 2019.

As all of the 2017 Agreements will expire on 31 December 2019, the relevant parties to each of the 2017 Agreements have agreed to continue with the arrangements under the relevant 2017 Agreement upon its expiry for a period of three years under similar terms by entering into the relevant 2019 Agreement.

THE 2019 BUSINESS ARRANGEMENTS AGREEMENT

The 2019 Business Arrangements Agreement was entered into on 24 October 2019 between subsidiaries of the Company, namely, Technovator Beijing and Tongfang Energy Saving, and THTF in relation to the business arrangements for the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

A summary of the principal terms of the 2019 Business Arrangements Agreement is set out below:

- Date : 24 October 2019 (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

LETTER FROM THE BOARD

- 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 will act as the party to supply contracts to procure materials or services from third party suppliers for the Nominee Projects and 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;

LETTER FROM THE BOARD

- (iv) THTF agrees that for 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 the 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.

LETTER FROM THE BOARD

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 2019 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.

LETTER FROM THE BOARD

In accordance with relevant internal control policies of the Group, the sales department of the Group will 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, and the procurement department of the Group will be primarily responsible for preparing or negotiating supply contracts with the suppliers of the Nominee Projects, both of which will be subject to review by the other business functions of the Group, including the finance department and operation departments. 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. 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 thereto) the forms of which have been approved by the Group in writing as subject to the 2019 Business Arrangements Agreement.

LETTER FROM THE BOARD

The Company considers that a price range indicated by two project prices 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 who are Independent Third Parties; (ii) THTF will not be involved in the negotiation of contract prices and will only act as the contracting party of the sales contracts and supply contracts in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses under the instruction 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 Company's other subsidiaries, such that the pricing basis of the Group's projects are the same with or without the arrangement with THTF under the 2019 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, although previous projects with similar scope can still serve as a highly comparable reference; (v) since the sales contracts and supply contracts are project-based, there will not be many similar projects in a short period of time which can be taken as a reference of contract price; (vi) the price ranges of at least two similar projects will only serve as an indication of the 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 is not expected have changes that will lead to a significant fluctuation in the contract price within any given 12-month period. Further, prices of Nominee Projects entered into since the completion of the Group's acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Business, which will be used as part of the indicated price range, were negotiated directly by the Group in the first place.

Terms : A term of three years from 1 January 2020 to 31 December 2022

LETTER FROM THE BOARD

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

For each of the years ending 31 December 2020, 2021 and 2022 – RMB1,600.0 million

Payments to be transferred by the Group to THTF

For each of the years ending 31 December 2020, 2021 and 2022 – 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 2019 Business Arrangements Agreement to pay such amount as set forth in Subject Matter (i), (ii) and (v) under "Subject Matter" above; and (ii) any amount paid by the Group to THTF arising from the Group's obligations under the 2019 Business Arrangements Agreement to reimburse THTF for such amount as set forth in Subject Matter (iii), (iv) and (v) under "Subject Matter" above.

Historical Transaction Amounts

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, payments transferred by THTF to the Group under the 2017 Business Arrangements Agreement amounted to approximately RMB940.8 million, RMB1,378.8 million and RMB591.9 million, respectively.

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, payments transferred by the Group to THTF under the 2017 Business Arrangements Agreement amounted to approximately RMB796.6 million, RMB954.0 million and RMB647.8 million, respectively.

Historical and Existing Annual Caps

The historical and existing annual caps for the 2017 Business Arrangements Agreement for the payments to be transferred by THTF to the Group amounted to RMB1,200.0 million, RMB1,500.0 million and RMB1,600.0 million for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019, respectively.

The historical and existing annual caps for the 2017 Business Arrangements Agreement for the payments to be transferred by the Group to THTF amounted to RMB1,000.0 million, RMB1,250.0 million and RMB1,300.0 million for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019, respectively.

LETTER FROM THE BOARD

Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2020, 2021 and 2022, 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);
- (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, a majority of the payments from the customers are received in the last quarter of each year. As such, the payments to be transferred by THTF to the Group for the nine months ended 30 September 2019 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ending 31 December 2019;
- (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, a majority of the costs of sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses are billed in the last quarter of each year. As such, the payments to be transferred by the Group to THTF for the nine months ended 30 September 2019 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ending 31 December 2019;
- (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; and

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- (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, taking into account industry trends and macro-economic factors, coupled with the Group's targeted growth rate. In particular, the Company notices substantial increase in the number of new contracts generally entered into in the nine months ended 30 September 2019, and estimates that such growth trend may continue for the upcoming years. Notwithstanding the expected continued growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and the corresponding general increase in the number of relevant contracts, with the continuing endeavours of the Group in securing contracts directly with customers independent of THTF, the Company estimates that the payments to be transferred by THTF to the Group or by the Group to THTF will remain relatively stable in absolute terms, as reflected in the proposed annual caps under the 2019 Business Arrangements Agreement, and will experience a decreasing trend in percentage terms relative to our Group's revenue.

Reasons for and benefits of the 2019 Business Arrangements Agreement

Under the 2019 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. However, the Group handles all matters relating to the Nominee Projects, including but not limited to negotiating of terms and contracts, providing services and performing the work required, and monitoring and controlling the payments received and made. The relevant personnel at the Intelligent Rail Transit, Building and Urban Heating Network Businesses responsible for managing the 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.

The 2019 Business Arrangements Agreement constitutes a continuation of the transitional arrangement that has been in place following the completion of the transfer of the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group. Due to the acquisition under the Business and Assets Purchase Agreements being an acquisition of an ongoing business and not an acquisition of corporate entity, it is not possible for the Company to determine a cutoff date for such transitional arrangements. Further, a substantial amount of the customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses are large-scale corporations or state-owned or state-controlled enterprises. Based on the experience of the Group in dealing with these customers, these customers generally select contractors for their projects based on factors such as operating history, industry experience and prior working relationships, all of which requires a substantial period of time to develop and cultivate. For some of the existing customers who have engaged THTF for services under the Intelligent Rail Transit,

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Building and Urban Heating Network Businesses, they may have internal policies or procedures that hinder their ability to engage the Group directly, and may wish to continue to deal with THTF directly in the meantime. The considerable amount of time that it takes for these existing customers, especially those large corporations or state-owned or state-controlled enterprises, to obtain the internal approval to engage the Group directly necessitates the longer transitional period that the Group has to go through. For new customers which have not engaged THTF prior to the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, they may also have internal policies that require them to select contractors based on the factors set out above or internal requirements that do not allow them to engage the Group directly. The Group will therefore leverage upon the operating history and industry reputation of THTF and exercise its contractual right to request THTF to enter into these contracts in its name for the Group, so that the Group can avoid loss of potential business opportunities, strengthen its position in the industry and build continuing relationships with these customers, all of which are important for the continued development of the Company.

The Company has continued to deploy different strategies when negotiating with existing and new customers in relation to projects in the Intelligent Rail Transit, Building and Urban Heating Network Businesses. For existing customers, the Company has been educating these customers to contract with the Group directly so as to reduce the transactions through THTF. Through continuous efforts, during the previous three years, the Group has successfully entered into a considerable number of new contracts with these existing customers. As for the new customers, projects of these customers are generally obtained by tenders which are either public tenders open and made known to the public or private tenders open only to selected contractors. For these public and private tenders, the customers will select contractors or invite contractors to bid for such projects with reference to a number of prescribed requirements or preferences such as operating history, industry experience and prior working relationships. 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 first attempt to contract with these customers directly by promoting and emphasising on the quality of the Group's products and services. If such new customers still prefer to contract with THTF because of its long operating history and reputation, the Group will then request THTF to contract with these new customers on behalf of the Group. Such strategy has proved to be successful in attracting new customers in the previous three years. For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new customers of Nominee Projects, as compared to the total number of new customers of the Group, are as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>
Number of customers	94	32.6%	80	33.9%	41	26.0%

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After the Group has secured contracts with these new customers, the Group will then invest additional time to educate them to directly engage the Group in the future whilst the Group continues to accumulate its operating experience, presence and name in the industry. For some of these customers, due to their internal policies or procedure, they still prefer to contract with THTF even though they are aware that it is in fact the Group which is responsible for performing the work required by the Nominee Projects. As these customers already know that the actual works are being performed by the Group, the Group can readily leverage upon the long-term business relationship established with such customers through the Nominee Projects to continuously provide first-hand demonstrations of its quality of work, while also take the opportunity to establish trust and build its own brand name and reputation amongst these customers and in the marketplace.

For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new Nominee Projects entered into with existing customers, as compared to the total number of new contracts entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses, are as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>
Number of contracts	129	15.8%	54	8.5%	21	4.8%

In addition to the steady decline in both the number of new Nominee Projects with existing customers and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses as a whole, the Group has also successfully entered into 182 new contracts with such existing customers directly during the same period. Based on the above, the Directors consider that the Group's strategies as described above has been successful.

The transactions contemplated under the 2019 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 continues to establish its position in the market under its own name. Since the completion of the optimization and reorganization of the businesses of the Group in 2017, the Group has been directly engaged for a substantial amount of new projects and contracts. Nonetheless, 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 2019 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 continuing to build-up the Group's presence and name.

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Since the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in October 2015, the Group has continued to establish and expand its presence in the market for the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Nonetheless, some customers still need time and further assurance to obtain their own internal approval to engage the Group directly for the services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, and these customers may wish to continue to deal with THTF in the meantime due to their history of dealings with THTF. The Directors believe the arrangements under the 2019 Business Arrangements Agreement continue to be an integral part of the operations of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

Although the Company has the right to require THTF to enter into contracts relating to the Intelligent Rail Transit, Building and Urban Heating Network Businesses for the Group, the Group has continued to develop and implement the strategies and measures described above to reduce the number of contracts entered into in the name of THTF. For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new Nominee Projects, as compared to the total number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, are as follows:

	For the year ended		For the year ended		For the	
	31 December 2017		31 December 2018		nine months ended	
	<i>Percentage</i>		<i>Percentage</i>		<i>Percentage</i>	
	<i>of total</i>		<i>of total</i>		<i>of total</i>	
	<i>New</i>	<i>number of</i>	<i>New</i>	<i>number of</i>	<i>New</i>	<i>number of</i>
	<i>Nominee</i>	<i>new</i>	<i>Nominee</i>	<i>new</i>	<i>Nominee</i>	<i>new</i>
	<i>Projects</i>	<i>contracts</i>	<i>Projects</i>	<i>contracts</i>	<i>Projects</i>	<i>contracts</i>
Number of contracts	273	33.5%	162	25.6%	97	22.2%

Despite the continuing expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in recent years, there has been a steady decline in both the number of new Nominee Projects and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole. The Directors believe that this decreasing trend demonstrates the success of the measures that the Group has been employing to reduce the number of contracts entered into in the name of THTF.

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In terms of revenue, revenue generated from Nominee Projects does not equate to the amount to be received from THTF by the Group 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 some of the payments are for completed projects of prior periods. For the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, revenue generated from Nominee Projects amounted to 63.9%, 72.4% and 51.0% of the total revenue of the Company, respectively. The increase in percentage of revenue generated for the year ended 31 December 2018 compared to the year ended 31 December 2017 was mainly due to the fact that the accumulation of the smart transportation business preliminary projects was released during the year ended 31 December 2018, resulting in significant revenue growth of 31.4% in the smart transportation business segment from approximately RMB534.8 million in the year ended 31 December 2017 to approximately RMB702.8 million in the year ended 31 December 2018. As disclosed in the Company's 2018 annual report, such growth was mainly driven by a number of smart subway projects under the Intelligent Rail Transit Business, which were mainly Nominee Projects contracted through THTF as contracts for public transport generally have more stringent selection criteria as to factors such as operating history and industry experience. From the year ending 31 December 2019 onwards through the term of the 2019 Business Arrangements Agreement, the Company expects the percentage of revenue generated from Nominee Projects to continually decrease. The Directors are committed to maintaining their undertaking 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, as mentioned in the 2017 Announcement and Circular.

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. As THTF is in name the contracting party to the Nominee Projects, it has also assumed the role as the contracting party for the procurements relating to the Nominee Projects. Generally, the Company will engage suppliers for Nominee Projects directly unless the relevant customer (i) requires to participate in the selection process for suppliers; or (ii) directly designates certain suppliers, where the Company will then ask THTF to act as the party to the procurement contract, given that THTF is the contracting party with the customer for the Nominee Projects. However, the Group can and is able to independently procure from these suppliers if needed. Furthermore, THTF is not entitled to any additional charge for these payments or procurement.

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 30 September 2019 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.

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The Directors, including the independent non-executive Directors, are of the view that the 2019 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.

THE 2019 SALES AGREEMENT

The 2019 Sales Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Sales Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 Sales Agreement is set out below:

- Date : 24 October 2019 (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 intelligent energy saving related products, equipment and services, which include control security systems, fire alarm systems and energy saving equipment, to the Tongfang Group for a term of three years from 1 January 2020 to 31 December 2022.
- 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 the 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. 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.

Terms : A term of three years from 1 January 2020 to 31 December 2022

Annual caps : For the year ending 31 December 2020 – RMB250.0 million
For the year ending 31 December 2021 – RMB300.0 million
For the year ending 31 December 2022 – RMB350.0 million

Historical Transaction Amounts

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, the Group sold products and services under the 2017 Sales Agreement to Tongfang Group in the amount of approximately RMB113.3 million, RMB65.7 million and RMB32.2 million, respectively.

Historical and Existing Annual Caps

The historical and existing annual caps under the 2017 Sales Agreement for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 amounted to RMB120.0 million, RMB280.0 million and RMB300.0 million, respectively.

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Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2020, 2021 and 2022, the Company has taken into account, among other things, the following:

- (i) *Historical transaction amount:* The historical sales amount that the Group sold to Tongfang Group under the previous sale agreements, and the historical patterns, including seasonality and proportions of payment each year. For the year ended 31 December 2018, due to delayed projects of Tongfang Group particularly those in relation to its intelligent buildings and non-energy saving buildings businesses, the products and services provided by the Group to Tongfang Group experienced a considerable one-off decrease. The Directors expect such shortfall in forecasted sales to be belatedly added back during the years following 2018, leading to an increase in subsequent transaction amounts. Further, for energy saving products and services, the Group will generally invoice for progress payment of projects with reference to the work done towards the last quarter of each year in line with industry practice. As such, the amount of products and services sold to Tongfang Group for the nine months ended 30 September 2019 does not reflect the full extent of the amount of products and services to be sold to Tongfang Group for the full year ending 31 December 2019;
- (ii) *Forecasted sales amount:* The forecasted sales amount is estimated to be approximately RMB246.0 million, RMB290.4 million and RMB346.5 million for each of the years ending 31 December 2020, 2021 and 2022, respectively. The forecasted sales amount is estimated based on discussions with Tongfang Group taking into account new contracts and projects in the pipeline, including the expected business growth of Tongfang Group for the years ending 31 December 2020, 2021 and 2022. In particular, the Group expects a considerable increase in sales to the Tongfang Group in relation to its energy saving and cooling business from 2020 onwards. The growth for the sales to Tongfang Group also takes into account the targeted growth rate of the Group, which is estimated to be approximately 12.7%, 13.1% and 13.4% for each of the years ending 31 December 2020, 2021 and 2022, respectively, taking into account the historical growth rate, the expected development and the forecasted growth trend of each of the three major business segments of the Group, namely smart transportation, smart building and complex and smart energy; 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.

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Reasons for and benefits of the 2019 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 2019 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 2019 PURCHASE AGREEMENT

The 2019 Purchase Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Purchase Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 Purchase Agreement is set out below:

Date	:	24 October 2019 (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 the 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 2020 to 31 December 2022.
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.

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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
- (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 the 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 the 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.

The 2019 Purchase Agreement contains no provision that (i) requires the Group to purchase such goods or services exclusively from Tongfang Group during the term of the agreement; or (ii) stipulates any committed or minimum purchase quantity or amount by the Group.

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Terms	:	A term of three years from 1 January 2020 to 31 December 2022
Annual Caps	:	For the year ending 31 December 2020 – RMB200.0 million For the year ending 31 December 2021 – RMB250.0 million For the year ending 31 December 2022 – RMB300.0 million

Historical Transaction Amounts

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, the Group procured products and services under the 2017 Purchase Agreement from Tongfang Group in the amount of approximately RMB133.0 million, RMB99.3 million and RMB32.3 million, respectively.

Historical and Existing Annual Caps

The historical and existing annual caps under the 2017 Purchase Agreement for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 amounted to RMB150.0 million, RMB280.0 million and RMB300.0 million, respectively.

Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2020, 2021 and 2022, the Company has taken into account, among other things, the following:

- (i) *Historical transaction amount:* The historical procurement amount that the Group procured from Tongfang Group under previous purchase agreements, and the historical patterns, including seasonality and proportions of payment each year. For the year ended 31 December 2018, due to delayed projects of the Group particularly in relation to the Intelligent Urban Heating Network Business, the products and services provided by Tongfang Group to the Group experienced a considerable one-off decrease. With the commencement of these projects after 2018, the Directors expect such shortfall in forecasted procurement to be belatedly added back during the following years, leading to an increase in subsequent transaction amounts. Further, residual heat products related procurement is generally carried out in the last quarter of each year as heating related work has the highest demand during the winter months. As such, the amount of products and services procured by the Group for the nine months ended 30 September 2019 does not reflect the full extent of the amount of products and services to be procured by the Group for the full year ending 31 December 2019;

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- (ii) *Forecasted procurement amount:* The forecasted procurement amount is estimated to be approximately RMB198.0 million, RMB239.3 million and RMB291.9 million for each of the years ending 31 December 2020, 2021 and 2022, respectively. The forecasted sales amount is estimated based on expected demand for products and services with references to historical amounts and expected business growth. The Group has recently commenced its network source integration and cold storage business, which is expected to lead to further procurement of products such as heating pumps from Tongfang Kawasaki and cooling facilities from the energy storage department of Tongfang Group. 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. Additionally, the growth of the business of the Group is also expected to lead to an overlap in the commencement period of some of the projects. To ensure the implementation quality of these projects, the Group is expected to engage Tongfang Group to provide certain implementation testing services. The procurement of these products and services are assumed to increase at a rate based on the expected growth of the business and the targeted growth rate of the Group, which is estimated to be approximately 12.7%, 13.1% and 13.4% for each of the years ending 31 December 2020, 2021 and 2022, respectively, taking into account the historical growth rate, the expected development and the forecasted growth trend of each of the three major business segments of the Group, namely smart transportation, smart building and complex and smart energy.; 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 2019 Purchase Agreement will correspondingly increase.

Reasons for and benefits of the 2019 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 2019 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.

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THE 2019 MASTER AGREEMENT

The 2019 Master Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Master Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 Master Agreement is set out below:

- Date : 24 October 2019 (after trading hours)
- Parties : (1) Technovator Beijing, a wholly-owned subsidiary of the Company
(2) THTF, a controlling Shareholder
- Subject matter : The Group may provide to or receive from Tongfang Group miscellaneous products and services as may be required to satisfy the operational needs of the Group/Tongfang Group from time to time in the ordinary course of business of the Group in accordance with the terms and conditions of the 2019 Master Agreement for a term of three years from 1 January 2020 to 31 December 2022.

Pursuant to the 2019 Master Agreement, the miscellaneous products and services provided by the Group to Tongfang Group mainly include (i) rental services (including leasing of land and premises); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services but exclude any transactions contemplated under the 2019 Sales Agreement.

The miscellaneous products and services provided by Tongfang Group to the Group mainly include (i) rental services (including leasing of land, premises, machinery and equipment); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services, other than the Existing Trademark License Agreements and any transactions contemplated under the 2019 Purchase Agreement.

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Consideration and payment : For the sale of ready-made products or the provision of standardised services, the price for such products or services shall be 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, reference shall be made to transactions of similar type, scale and nature with Independent Third Parties to ensure that the price and conditions as offered by the Tongfang Group to the Group are not less favourable than those offered to Independent Third Parties.

For the acquisition of products or services, 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 condition as offered by the Tongfang Group are fair and reasonable and similar to those offered by Independent Third Parties.

For the sharing of general administration and management support services, the fees payable or receivable by the Group are determined based on the direct cost of the human resources providing such services, the actual overhead costs incurred by the relevant offices and the number of entities sharing the services provided by the relevant office.

The prices at which the Group or Tongfang Group provides such services will be based on the following pricing mechanism in the following order of priority:

- (i) government-prescribed price (including any price prescribed by any relevant local government, if applicable);
- (ii) where there is no government-prescribed price but there is a government-guidance price, then the government-guidance price;

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- (iii) where there is neither a government-prescribed price nor a government-guidance price, the prevailing market price with reference to the nature of the same or similar type of products and services (including location, size of properties, ancillary facilities and equipment) provided by the Independent Third Parties in the ordinary course of business of the Group; or
- (iv) where none of the above is applicable or where it is not practical to apply the above pricing policies, then the price agreed between the relevant parties shall be based on arm's length negotiation and shall be the reasonable costs incurred in providing the products plus reasonable profits.

Based on the Group's current discussions with Tongfang Group, the Group expects that government-prescribed prices and government-guidance prices will generally not be applicable to the goods and services to be provided by or to the Group under the 2019 Master Agreement.

The actual price will be separately determined on arm's length basis and agreed between the Group and Tongfang Group prior to their entering into of each transaction based on the above pricing mechanism. Therefore, such price will be comparable to or no less favorable to the Group than the market price of the same or similar type of products and services available from Independent Third Parties.

In respect of services or products provided by the Group to THTF, 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. 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.

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In respect of services or products provided by the THTF to the Group, 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 (“**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 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 the Tongfang 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.

The relevant pricing mechanism was determined by the parties after arm’s length negotiations with reference to the pricing principles of similar transactions previously carried out by the Group.

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All transaction amounts shall be paid before the 15th day of the next month after set-off. Interests shall be accrued on any amounts overdue for more than one month at the prevailing bank lending rate.

Terms : A term of three years from 1 January 2020 to 31 December 2022

Annual caps : Provision of miscellaneous products and services by the Group to Tongfang Group

For the year ending 31 December 2020 – RMB30.0 million
For the year ending 31 December 2021 – RMB40.0 million
For the year ending 31 December 2022 – RMB50.0 million

Receipt of miscellaneous products and services by the Group from Tongfang Group

For the year ending 31 December 2020 – RMB50.0 million
For the year ending 31 December 2021 – RMB60.0 million
For the year ending 31 December 2022 – RMB70.0 million

Historical Transaction Amounts

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, there was no provision of miscellaneous products and services by the Group to Tongfang Group.

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, receipt of miscellaneous products and services by the Group from Tongfang Group amounted to approximately RMB25.7 million, RMB25.9 million and RMB15.6 million, respectively.

Historical and Existing Annual Caps

The historical and existing annual caps under the 2017 Master Agreement for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 is RMB30.0 million, RMB40.0 million and RMB50.0 million, respectively, for the provision of miscellaneous products and services by the Group to Tongfang Group, and RMB30.0 million, RMB40.0 million and RMB50.0 million, respectively, for the receipt of miscellaneous products and services by the Group from Tongfang Group.

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Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2020, 2021 and 2022, the Company has taken into account the following:

- (i) *Historical transaction amount:* For the receipt of miscellaneous products and services by the Group from Tongfang Group, the actual amount of procurement by the Group during the historical periods, and the expected increase of the procurement of such products and services;
- (ii) *Increase in rental costs:* For the rental services provided by Tongfang Group to the Group, rental costs for such rental services (including leasing of land, premises, machinery and equipment) is expected to increase at a rate of 10% per year based on the latest market trend of rental prices and by reference to the current terms. The expected growth in the business of the Company as mentioned in (v) below is also expected to lead to an increase in the headcount of the Company and therefore rental costs of relevant premises;
- (iii) *New research and development needs of Tongfang Group:* During the term of the 2017 Master Agreement, the Group and Tongfang Group have discussed, amongst others, the potential provision of research and development services and products by the Group to Tongfang Group. Prior to the second half of 2019, none of the potential arrangements has materialised and therefore, as of 30 September 2019, there has been no provision of miscellaneous products and services by the Group to Tongfang Group under the 2017 Master Agreement. Nonetheless, during the second half of 2019, the Group has commenced collaboration with Tongfang Group to provide technical support for the further development of its cooling and intelligent city businesses, and the relevant research and development services and products are expected to be invoiced by our Group starting from 2020. Further, in 2019, Tongfang Group entered into a strategic co-operation with Tsinghua University, pursuant to which Tsinghua University commissioned Tongfang Group to provide research and development services and products related to the implementation of a number of PRC national policies. Following the execution of this strategic co-operation agreement, the Group is expected to provide further research and development services and products to Tongfang Group in the upcoming years, particularly in relation to the current businesses that the Group is primarily engaged in;
- (iv) *Increase in research and development services:* The amount of research and development services to be procured from and to provide to Tongfang Group is assumed to increase based on historical growth, existing contracts and on the new potential research and development projects in discussions between Tongfang Group and the Group including the new research and development projects mentioned in (iii) above. The expected diversification in the business of the Company is also expected to lead to an increase in the need for research and development services to be procured from THTF; and

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- (v) *Other factors:* Prevailing market rates and conditions in the PRC, anticipated growth of the business of the Group and the Tongfang Group, the sales planning, actual operating circumstances of the Group and the future sharing of support services of some of the Group's offices between the Group and Tongfang Group to accommodate their respective future development and optimise their respective costs.

Reasons for and benefits of the 2019 Master Agreement

Maintaining the sales of goods to the Tongfang Group has a positive contribution to the operating revenue of the Group and the Tongfang Group has proven to be one of the reliable suppliers to the Group at competitive prices which has a positive contribution to the business and operations of the Group. The transactions contemplated under the 2019 Master Agreement will facilitate the sales of products and services from the Group to Tongfang Group, and the procurement of products and services from Tongfang Group by the Group of miscellaneous nature. Given the mutual beneficial relationship between the Group and the Tongfang Group, the Directors, including the independent non-executive Directors, consider that the 2019 Master 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.

Implementation Agreement

The 2019 Master Agreement is intended to set out the basic terms of the transactions to be covered under the 2019 Master Agreement. The parties shall negotiate the specific terms of the transactions in accordance with the market conditions. It is envisaged that from time to time and as required, individual implementation agreements may be entered into between the Company, THTF and their respective associates or relevant parties, as appropriate, to set out further terms of the transactions contemplated under the 2019 Master Agreement.

Each implementation agreement will set out the specific scope of products and services requested by the relevant party and other specifications which may be relevant to those products and services. The implementation agreements may only contain provisions which are in all material respect consistent with the terms and conditions as contained in the 2019 Master Agreement. For rental services that will be provided by or to the Group under the 2019 Master Agreement, all of the relevant lease agreements entered into or proposed to be entered into are subject to fixed payment terms only.

As the implementation agreements are simply further elaborations on the provision of products and services as contemplated by the 2019 Master Agreement, they do not constitute new categories of connected transactions or continuing connected transactions under the Listing Rules.

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INTERNAL CONTROLS

The independent non-executive Directors and the auditors of the Company will review the transactions under each of the 2019 Agreements annually to ensure that the 2019 Agreements are entered into in the ordinary course of business of the Company and 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 2019 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 2019 Agreements:

The 2019 Business Arrangements Agreement

Pursuant to the 2019 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 2019 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;
- (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 2019 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

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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 2019 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 the 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 and the procurement department will continue to be responsible for preparing or negotiating supply contracts with the suppliers of the Nominee Projects, both of which will be subject to review by the 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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The 2019 Sales Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2019 Sales Agreement. In addition to the internal control measures described in “Consideration and Payment” under the summary of the 2019 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 2019 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 (a) for self-produced products, the production cost; or (b) 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. 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. 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.

The 2019 Purchase Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2019 Purchase Agreement.

In addition to the internal control measures described in "Consideration and Payment" under the summary of the 2019 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 2019 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;
- (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.

The 2019 Master Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2019 Master Agreement. In addition to the internal control measures described in “Consideration and Payment” under the summary of the 2019 Master Agreement in this letter, the Group has adopted the following internal control measures in relation to the 2019 Master Agreement:

- (i) for all transactions involving products and services provided by the Group to Tongfang Group, including any new types of products or services, the sales, operation and finance department of the Group will, through the procedures described in “Internal Controls — The 2019 Sales Agreement” in this letter, report, approve and monitor the transactions accordingly;
- (ii) for all transactions involving products and services provided by Tongfang Group to the Group, including any new types of products or services, the procurement, operation and finance department of the Group will, through the procedures described in “Internal Controls — The 2019 Purchase Agreement” in this letter, report, approve and monitor the transactions accordingly; and
- (iii) the sales and procurement departments of the Group will regularly monitor government announcements and publications to check whether any government-prescribed prices or government-guidance prices are imposed on products and services provided by or to the Group, including any new types of such products or services, to ensure

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compliance of the pricing terms under the 2019 Master Agreement in relation to government-prescribed prices or government-guidance prices.

Based on the above, the Directors are of the view that the above procedures provide sufficient and effective safeguard to ensure that the transactions under each of the 2019 Agreements are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable.

LISTING RULES IMPLICATIONS

THTF is a controlling Shareholder and is therefore a connected persons of the Company under the Listing Rules. Accordingly, the 2019 Agreements and the transactions under the 2019 Agreements between the Group and Tongfang Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 2019 Business Arrangements Agreement; (iii) the status of THTF as a controlling Shareholder; and (iv) the treatment by the Group of the transfers under the 2017 Business Arrangements Agreement in 2017, for the transfers contemplated under the 2019 Business Arrangements, 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, 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.

As one or more percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions contemplated under each of the 2019 Agreements are greater than 5%, each of the 2019 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 2019 Agreements and the respective Annual Caps for the years ending 31 December 2020, 2021 and 2022.

As the transactions under the 2019 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. For leases entered into with Tongfang Group under the 2019 Master Agreement, the Company expects them to be classified as either short-term leases or leases of low-value assets, which will not be

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recognised as right-of-use assets under HKFRS 16 and will not be capitalised in the Group's consolidated financial statements. Hence, the Company does not expect such leases to constitute transactions under Chapter 14 of the Listing Rules.

INFORMATION ABOUT THE GROUP, TECHNOVATOR BEIJING AND TECHNOVATOR ENERGY SAVING

The Group is a leading integrated urban energy saving services provider, which concentrated on 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 and is established in the PRC with limited liability. Technovator Beijing is principally engaged in the design, manufacturing and marketing of building automation solutions.

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 energy management services and marketing of heating power equipment.

RELATIONS 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.

As at the Latest Practicable Date, THTF directly and indirectly through Resuccess owns a total of 286,330,142 Shares, representing approximately 36.6% 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.

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Plans to Reduce Reliance on THTF

The Group has adopted the following plans to reduce its transactions with Tongfang Group:

- (i) The Group has and will continue to explore new business areas and operation models. As disclosed in the 2018 annual report of the Company, the Group will continue to actively explore innovative models such as energy management contracts (EMC), franchising, operation and maintenance services and the effective link-up of production, learning, research and utilisation, with an aim to adjust its income structure and ensure a long-term and sustainable development. As the Group continues to develop its more innovative operations, expand its other business operations and reach out to a more diverse customer base, it is expected that the significance of Nominee Projects, being primarily traditional construction contracts, to the Group will gradually decrease. In the meantime, the Group will use its best endeavor to contract directly with the customers of the Nominee Projects, through the Group's two-pronged strategy in dealing with such existing and new customers as disclosed in "The 2019 Business Arrangements Agreement — Reasons for and benefits of the 2019 Business Arrangements Agreement" in this letter. Nonetheless, the Group will continue to be selective in choosing its customers and projects and will only take on potential Nominee Projects that fit into the Group's core profile or future plans. On the customer side, the Group will continuously assess the payment history of its existing customers and will not enter into new Nominee Projects with customers that do not have a satisfactory credit history. On the project side, the Group will carefully select Nominee Projects by assessing, among others, its profitability, payment terms and scope, and will gradually phase out Nominee Projects in particular those with low profitability or unsatisfactory payment terms, or those which do not fit into the core strength and profile of the Group as a whole;
- (ii) the Group has implemented internal control measures to monitor all transactions with Tongfang Group. Please refer to "Internal Controls" in this letter for details. In particular, the operation department of the Group 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
- (iii) the Directors continue to be committed to maintaining their undertaking 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, as mentioned in the 2017 Announcement and Circular. From the year ending 31 December 2019 onwards through the term of the 2019 Business Arrangements Agreement, the

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Company expects the percentage of revenue generated from Nominee Projects to continually decrease on an annual basis. The Group will use its best endeavours to further reduce the percentage of revenue generated from Nominee Projects to not more than 30% of the total revenue of the Group for the corresponding year by no later than 2025.

Reliance on THTF

The Directors consider that the Company's measures to reduce reliance on THTF has been successful, and that the Group is not and will not be overly reliant on THTF, for the following reasons:

(i) *Decreasing Reliance on Nominee Projects*

The Company has been active in contracting directly with both existing customers who have engaged THTF prior to the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and new customers who have not engaged THTF prior to the acquisition. Through the Group's two-pronged strategy in dealing with such existing and new customers as disclosed in "The 2019 Business Arrangements Agreement — Reasons for and benefits of the 2019 Business Arrangements Agreement" in this letter, the Group has made considerable progress in decreasing the number of contracts entered into through THTF. Through each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, there has been a decline in both the number of new Nominee Projects and the proportion of new Nominee Projects to the total number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, despite the continuing expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Please refer to "The 2019 Business Arrangements Agreement — Reasons for and benefits of the 2019 Business Arrangements Agreement" in this letter for details on the number and proportion of Nominee Projects for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019.

As the Company's businesses are principally operated on a project basis, its ability to generate business independently and its reliance on THTF in respect of the Intelligent Rail Transit, Building and Urban Heating Network Businesses is more representatively measured by the number and percentage of the new contracts entered into by the Company. In terms of revenue, the annual caps for the payments to be transferred by THTF to the Group does not equate to the 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 for this reason, some of the payments are related to completed projects of prior periods. Further, as many of the contracts of the Group last more than one year and are of different duration, revenue and payments of such projects are spread unevenly over a number of years and revenue generated from Nominee Projects signed by the Group during previous years may be booked in later years. Hence, revenue generated from Nominee Projects of a particular year may not fully reflect the Group's ability to generate business independent of Tongfang Group within that year. Taking into account the above, the Directors consider that the Company's reliance on THTF has decreased despite an increase in percentage of revenue generated from Nominee Projects for the year ended 31 December 2018

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compared to the year ended 31 December 2017. In any event, the percentage of revenue generated from Nominee Projects for the nine months ended 30 September 2019 has since decreased compared to both the year ended 31 December 2018 and the year ended 31 December 2017, and the Company expects the percentage of revenue generated from the Nominee Projects will continue to decrease during the term of the 2019 Business Arrangements Agreement. The Directors continue to be committed to maintaining their undertaking 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, as mentioned in the 2017 Announcement and Circular. From the year ending 31 December 2019 onwards through the term of the 2019 Business Arrangements Agreement, the Company expects the percentage of revenue generated from Nominee Projects to continually decrease on an annual basis. The Group will use its best endeavours to further reduce the percentage of revenue generated from Nominee Projects to not more than 30% of the total revenue of the Group for the corresponding year by no later than 2025.

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

The payments to and from THTF under the 2017 Business Arrangements Agreement and the 2019 Business Arrangements Agreement are to facilitate the Group to receive and settle payments to and from customers and suppliers for Nominee Projects only. Under these agreements, THTF is neither a customer nor a supplier of the Group, and it is not entitled to any fees or commission for such payments. As disclosed in "The 2019 Business Arrangements Agreement — Reasons for and benefits of the 2019 Business Arrangements Agreement" of this letter, the Group itself handles all matters relating to the Nominee Projects, including but not limited to negotiating of terms and contracts, providing services and performing the work required, and monitoring and controlling the payments received and made. As further disclosed in "Internal Controls" of this letter, transfer of payments to and from THTF for Nominee Projects are effected through a separate bank account maintained by THTF but controlled only by the Group. The role of THTF under this arrangement is only to enter into contracts with the customers and the suppliers in its name for the Group, if so requested by the Group.

As for the 2019 Sales Agreement and 2019 Purchase Agreement, based on the Company's estimated revenue, the proposed annual caps, are not expected to amount to more than 11% of the total revenue of the Group for any corresponding year. For each of the years ending 31 December 2020, 2021 and 2022, revenue generated by the Company from Tongfang Group through the 2019 Sales Agreement and the 2019 Master Agreement are not expected to amount to more than 11% and 2% of the total revenue of the Group, respectively, for any corresponding year.

(iii) Ability to generate business independent of THTF

As disclosed in "The 2019 Business Arrangements Agreement — Reasons for and benefits of the 2019 Business Arrangements Agreement" in this letter, despite the continuing expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in recent years, there has been a steady decline in both the number of new Nominee Projects and the proportion of such new Nominee Projects

LETTER FROM THE BOARD

in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole.

From the Group's major customers' point of view, apart from customers of Nominee Projects, the Group serves and has direct access to all its major customers. For customers of Nominee Projects, the Group has made considerable progress in decreasing the number of contracts entered into through THTF. In particular, through the two years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the Company has successfully entered into 182 new contracts with existing customers who have engaged THTF for services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses. In any event, for all of the Group's projects including the Nominee Projects, the Group is responsible for handling all substantive matters, including but not limited to negotiating of terms and contracts with the customers and providing services and performing the work required by these customers.

As from the Group's major suppliers' point of view, these suppliers can all be accessed 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.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages 110 to 112 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 2019 Agreements, the transactions contemplated thereunder and their respective proposed Annual Cap amounts in accordance with the requirements of the Listing Rules.

None of the Directors has a material interest in the 2019 Agreements and therefore no Director has abstained from voting on the board resolutions of the Company to approve the 2019 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 286,330,142 Shares, representing approximately 36.6% of the issued Shares of the Company) are required to abstain from voting on the ordinary resolutions approving the 2019 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 2019 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 2019 Agreements and are required to abstain from voting on the resolutions to approve the 2019 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

LETTER FROM THE BOARD

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 has been formed by the Company to consider the 2019 Agreements, the transactions contemplated thereunder and their respective Annual Caps, and to advise the Independent Shareholders as to whether the 2019 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 and the Independent Shareholders on the terms of the 2019 Agreements.

Your attention is drawn to the letter from the Independent Board Committee as set out on page 52 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM.

Your attention is also drawn to the letter from Lego Corporate Finance Limited as set out on pages 53 to 104 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2019 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 2019 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
Qin Xinzhong
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)

16 December 2019

To the Independent Shareholders

Dear Sir or Madam,

**NEW 2019 AGREEMENTS IN RELATION
TO CERTAIN CONTINUING CONNECTED TRANSACTIONS**

We refer to the 2019 Announcement and the circular dated 16 December 2019 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 2019 Agreements, details of which are set out in the Letter from the Board contained in the Circular.

Having considered the 2019 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 53 to 104 of the Circular, we are of the opinion that (i) the 2019 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 2019 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 2019 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 2019 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 2019 Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



16 December 2019

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

Dear Sirs or Madams,

NEW 2019 AGREEMENTS IN RELATION TO CERTAIN CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2019 Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 16 December 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the 2019 Announcement in relation to, among others, the 2019 Agreements and the Annual Caps and the 2017 Announcement and Circular in relation to, among others, the continuing connected transactions contemplated under the 2017 Agreements and the related annual caps.

On 1 November 2017, the Group entered into the 2017 Business Arrangements Agreement with THTF to facilitate the successful transfer of the Intelligent Rail Transit, Building and Urban Heating Network Businesses. To accommodate the business needs of the Group as well as to enable the Group to conduct certain transactions of a miscellaneous nature with Tongfang Group, the relevant parties also entered into the 2017 Sales Agreement, the 2017 Purchase Agreement and the 2017 Master Agreement.

As all of the 2017 Agreements will expire on 31 December 2019, the relevant parties to each of the 2017 Agreements have agreed to continue with the arrangements under the relevant 2017 Agreement upon its expiry for a period of three years subject to similar terms and conditions by entering into the relevant 2019 Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, THTF is a controlling Shareholder and is therefore a connected person of the Company under the Listing Rules. Accordingly, the 2019 Agreements and the transactions contemplated under the 2019 Agreements between the Group and Tongfang Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For the transactions contemplated under the 2019 Business Arrangements Agreement, although no consideration will be paid by the Group to THTF in relation to such business arrangements, given, among others, that there will be payments between the Group and THTF and the treatment of the transfers under the 2017 Business Arrangements Agreement by the Group, 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.

As one or more percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions contemplated under each of the 2019 Agreements are greater than 5%, each of the 2019 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 established to advise the Independent Shareholders as to whether the 2019 Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the resolutions to be proposed at the EGM to approve the 2019 Agreements and the transactions contemplated thereunder. 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.

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, we had acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the continuing connected transactions in respect of the 2017 Agreements and the related annual caps (details of which were set out in the circular of the Company dated 6 December 2017). Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, which is not conditional upon successful passing of the resolutions to be proposed at the EGM, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Based on the foregoing, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and therefore eligible to give independent advice in respect of the 2019 Agreements and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 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 by the Directors and/or the management of the Group, for which they are solely and wholly responsible, 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 EGM and all such statements of belief, opinions and intentions of the Directors and/or 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 and/or the advisers of the Group. We have also sought and received confirmation from the management of the Group 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/or 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 sufficient 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/or 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 Company, or any of their respective subsidiaries and 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 2019 Agreements and the transactions contemplated thereunder 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 THTF

The Group is a leading integrated urban energy saving services provider, which concentrated on 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. 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 and is established in the PRC with limited liability. Technovator Beijing is principally engaged in the design, manufacturing and marketing of building automation solutions.

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 energy management services and marketing of heating power equipment.

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.

B. The 2019 Business Arrangements Agreement

1. Reasons for and benefits of the 2019 Business Arrangements Agreement

As disclosed in the Letter from the Board, under the 2019 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. However, the Group handles all matters relating to the Nominee Projects, including but not limited to negotiating of terms and contracts, providing services and performing the work required, and monitoring and controlling the payments received and made. The relevant personnel at the Intelligent Rail Transit, Building and Urban Heating Network Businesses responsible for managing the 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. As such, the role of THTF under this arrangement is only to enter into contracts with the customers and the suppliers in its name for the Group.

The 2019 Business Arrangements Agreement constitutes a continuation of the transitional arrangement that has been in place following the completion of the transfer of the Intelligent Rail Transit, Building and Urban Heating Network Businesses to the Group. Due to the acquisition under the Business and Assets Purchase Agreements being an acquisition of an ongoing business and not an acquisition of corporate entity, it is not possible for the Company to determine a cutoff date for such transitional arrangements. Further, a substantial amount of the customers of the Intelligent Rail Transit, Building and Urban Heating Network Businesses are large-scale corporations or state-owned or state-controlled enterprises. Based on the experience of the Group in dealing with these customers, these customers generally select contractors for their projects based on factors such as operating history, industry experience and prior working relationships, all of which requires a substantial period of time to develop and cultivate. For some of the existing customers who have engaged THTF for services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, they may have internal policies or procedures that hinder their ability to engage the Group directly, and may wish to continue to deal with THTF in the meantime. The considerable amount of time that it takes for these existing customers, especially those large corporations or state-owned or state-controlled enterprises, to obtain the internal approval to engage the Group directly necessitates the longer transitional period that the Group has to go through. For new customers which have not engaged THTF prior to the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses, they may also have internal policies that require them to select contractors based on the factors set out above or internal requirements that do not allow them to engage the Group directly. The Group will therefore leverage upon the operating history and industry reputation of THTF and exercise its contractual right to request THTF to enter into these contracts in its name for the Group, so that the Group can avoid loss of potential business opportunities, strengthen its position in the industry and build continuing relationships with these customers, all of which are important for the continued development of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company has continued to deploy different strategies when negotiating with existing and new customers in relation to projects in the Intelligent Rail Transit, Building and Urban Heating Network Businesses. For existing customers, the Company has been educating these customers to contract with the Group directly so as to reduce the transactions through THTF. Through continuous efforts, during the previous three years, the Group has successfully entered into a considerable number of new contracts with these existing customers. As for the new customers, projects of these customers are generally obtained by tenders which are either public tenders open and made known to the public or private tenders open only to selected contractors. For these public and private tenders, the customers will select contractors or invite contractors to bid for such projects with reference to a number of prescribed requirements or preferences such as operating history, industry experience and prior working relationships. 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 first attempt to contract with these customers directly by promoting and emphasising on the quality of the Group's products and services. If such new customers still prefer to contract with THTF because of its long operating history and reputation, the Group will then request THTF to contract with these new customers on behalf of the Group. Such strategy has proved to be successful in attracting new customers in the previous three years and thereby improving the financial performance of the Group. As THTF is the controlling Shareholder of the Company, such arrangement also benefits THTF by enhancing its return on the Company. We were further advised by the management of the Group that THTF is willing to maintain such business arrangement in the long term given such arrangement is mutually beneficial to the Group and THTF.

For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new customers of Nominee Projects, as compared to the total number of new customers of the Group, are as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>	<i>New customers of Nominee Projects</i>	<i>Percentage of total new customers</i>
Number of customers	94	32.6%	80	33.9%	41	26.0%

After the Group has secured contracts with these new customers, the Group will then invest additional time to educate them to directly engage the Group in the future whilst the Group continues to accumulate its operating experience, presence and name in the industry. For some of these customers, due to their internal policies or procedure, they still prefer to contract with THTF even though they are aware that it is in fact the Group which is responsible for performing the work required by the Nominee Projects. As these customers already know that the actual works are being performed by the Group, the Group can readily leverage upon the long-term business relationship established with such customers through the Nominee Projects to continuously provide first-hand demonstrations of its quality of work, while also take the opportunity to establish trust and build its own brand name and reputation amongst these customers and in the marketplace.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new Nominee Projects entered into with existing customers, as compared to the total number of new contracts entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses, are as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new contracts</i>
Number of contracts	129	15.8%	54	8.5%	21	4.8%

As disclosed in the Letter from the Board, in addition to the steady decline in both the number of new Nominee Projects with existing customers and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole, the Group has also successfully entered into 182 new contracts with such existing customers directly during the same period. Based on the above, the Directors consider that the Group's strategies as described above has been successful.

The transactions contemplated under the 2019 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 continue to establish 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 existing 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 2019 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 which the existing customers still wish to deal with THTF in the meantime, while continuing to build up the Group's presence and name. Given there is no obligations on the Group but only on THTF to enter into contracts with customers under the 2019 Business Arrangements Agreement and such arrangement facilitates the Group to capture business opportunities which otherwise less likely to be secured by the Group, thereby enhancing the profitability of the Group, we consider the arrangement under the 2019 Business Arrangements Agreement is in the interests of the Group and the Shareholders as a whole.

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Since the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in October 2015, the Group has continued to establish and expand its presence in the market for the Intelligent Rail Transit, Building and Urban Heating Network Businesses. Nonetheless, some customers still need time and further assurance to obtain their own internal approval to engage the Group directly for the services under the Intelligent Rail Transit, Building and Urban Heating Network Businesses, and these customers may wish to continue to deal with THTF in the meantime due to their history of dealings with THTF. The arrangements under the 2019 Business Arrangements Agreement also cover new projects which may be undertaken. As stated in the Letter from the Board, the Directors believe the arrangements under the 2019 Business Arrangements Agreement continue to be an integral part of the operations of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

Although the Company has the right to require THTF to enter into contracts relating to the Intelligent Rail Transit, Building and Urban Heating Network Businesses for the Group, the Group has continued to develop and implement the strategies and measures described above to reduce the number of contracts entered into in the name of THTF. For each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, the number of new Nominee Projects, as compared to the total number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, are as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	<i>Percentage of total</i>		<i>Percentage of total</i>		<i>Percentage of total</i>	
	<i>New number of Nominee new Projects contracts</i>		<i>New number of Nominee new Projects contracts</i>		<i>New number of Nominee new Projects contracts</i>	
Number of contracts	273	33.5%	162	25.6%	97	22.2%

Despite the continuing expansion of the Intelligent Rail Transit, Building and Urban Heating Network Businesses in recent years, there has been a steady decline in both the number of new Nominee Projects and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole. The Directors believe and we concur that this decreasing trend demonstrates the success of the measures that the Group has been employing to reduce the number of contracts entered into in the name of THTF and thereby reducing the reliance on THTF.

In terms of revenue, revenue generated from Nominee Projects does not equate to the amount to be received from THTF by the Group 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 some of the payments are for completed projects of prior periods. For the years ended 31 December 2017 and 2018

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and the nine months ended 30 September 2019, revenue generated from Nominee Projects amounted to 63.9%, 72.4% and 51.0% of the total revenue of the Company, respectively. The increase in percentage of revenue generated for the year ended 31 December 2018 compared to the year ended 31 December 2017 was mainly due to the fact that the accumulation of the smart transportation business preliminary projects was released during the year ended 31 December 2018, resulting in significant revenue growth of 31.4% in the smart transportation business segment from approximately RMB534.8 million in the year ended 31 December 2017 to approximately RMB702.8 million in the year ended 31 December 2018. As disclosed in the Company's 2018 annual report, such growth was mainly driven by a number of smart subway projects under the Intelligent Rail Transit Business, which were mainly Nominee Projects contracted through THTF as contracts for public transport generally have more stringent selection criteria as to factors such as operating history and industry experience. From the year ending 31 December 2019 onwards through the term of the 2019 Business Arrangements Agreement, the Company expects the percentage of revenue generated from Nominee Projects to continually decrease. The Directors are committed to maintaining their undertaking 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, as mentioned in the 2017 Announcement and Circular.

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. As THTF is in name the contracting party to the Nominee Projects, it has also assumed the role as the contracting party for the procurements relating to the Nominee Projects. Generally, the Company will engage suppliers for Nominee Projects directly unless the relevant customer (i) requires to participate in the selection process for suppliers; or (ii) directly designates certain suppliers, where the Company will then ask THTF to act as the party to the procurement contract, given that THTF is the contracting party with the customer for the Nominee Projects. However, the Group can and is able to independently procure from these suppliers if needed. Furthermore, THTF is neither a customer or a supplier of the Group and it is not entitled to any additional fees or commission for these payments or procurement.

We have discussed with the management of the Group and were given to understand that the Group has and will continue to explore new business areas and operation models. As disclosed in the annual report of the Company for the year ended 31 December 2018, the Group will continue to actively explore innovative models such as energy management contract, franchising, operation and maintenance services and the effective link-up of production, learning, research and utilisation, with an aim to adjust its income structure and ensure a long-term and sustainable development. As the Group continues to develop its more innovative operations, expand its other business operations and reach out to a more diverse customer base, it is expected that the significance of Nominee Projects, being primarily traditional construction contracts, to the Group will gradually decrease.

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Despite the historical amount of revenue generated from the Nominee Projects were relatively significant, taking into account that (i) the Group handles all matters relating to the Nominee Projects and the role of THTF under this arrangement is only to enter into contracts with the customers and the suppliers in its name for the Group; (ii) the steady decline in both (a) the number of new Nominee Projects and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole; (b) the number of new Nominee Projects with existing customers and the proportion of such new Nominee Projects in relation to the number of new contracts entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole; and (c) the number of new customers of Nominee Projects, as compared to the total number of new customers of the Group for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019; (iii) the Company expects the percentage of revenue generated from Nominee Projects to continually decrease from the year ending 31 December 2019 onwards through the term of the 2019 Business Arrangements Agreement; (iv) the Group can and is able to independently procure from suppliers of such Nominee Projects, if needed; and (v) the expansion and development of other businesses of the Group, the Directors are of the view and we concur that the Group is not overly reliant on THTF.

We also understand from the management of the Group that the Group has adopted certain internal control measures in relation to the 2017 Business Arrangements Agreement which shall continue to be applied on the 2019 Business Arrangements Agreement, details of which are set out in the section headed "Internal Control" in the Letter from the Board. For instance, the Group would monitor and check the invoices sent from the suppliers of the Nominee Projects to THTF to ensure its accuracy. 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 receipts and payments related to the Nominee Projects. 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. In addition, the said bank account, although held under the name of THTF, is controlled by the Group, and THTF has no control over or access to it.

As disclosed in the Letter from the Board, 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 30 September 2019 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. In other words, 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 as mentioned above, being monies of the Group. As such, the Directors are of the view that the reimbursement of the amounts to THTF for the settlement of debts of the Nominee Projects under the 2019 Business

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Arrangements Agreement are fair and reasonable to the Company and its Shareholders as a whole. The Directors believe the arrangements under the 2019 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 2019 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 Group has the right but not the obligations to require THTF to enter into contracts with customers; (iii) with the assistance of THTF by way of the arrangements under 2019 Business Arrangements Agreement, it is expected that the Group can capture the opportunities to undertake large-scale projects which otherwise less likely to be secured by the Group while building up the Group's presence and name; (iv) the business arrangement has proved to be successful in enhancing the financial performance of the Group in the past three years and is mutually beneficial to the Group and THTF; (v) the continuing connected transactions under the 2019 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; (vi) 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; (vii) the Group has implemented internal control measures to monitor transactions with Tongfang Group; and (viii) the Group is not overly reliant on THTF despite the historical amount of revenue generated from the Nominee Projects were relatively significant as detailed in the above, we are of the opinion that the entering into the 2019 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.

2. Principal terms of the 2019 Business Arrangements Agreement

The 2019 Business Arrangements Agreement was entered into on 24 October 2019 between subsidiaries of the Company, namely, Technovator Beijing and Tongfang Energy Saving, and THTF in relation to the business arrangements for the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

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A summary of the principal terms of the 2019 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;
- (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;

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- (iii) THTF will act as the party to supply contracts to procure materials or services from third party suppliers for the Nominee Projects and 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 for 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 the 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 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.

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 2019 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.

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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.

In accordance with relevant internal control policies of the Group, the sales department of the Group will 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, and the procurement department of the Group will be primarily responsible for preparing or negotiating supply contracts with the suppliers of the Nominee Projects, both of which will be subject to review by the other business functions of the Group, including the finance department and operation departments. 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. 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 thereto) the forms of which have been approved by the Group in writing as subject to the 2019 Business Arrangements Agreement.

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The Company considers that a price range indicated by two project prices 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 who are Independent Third Parties; (ii) THTF will not be involved in the negotiation of contract prices and will only act as the contracting party of the sales contracts and supply contracts in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses under the instruction 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 Company's other subsidiaries, such that the pricing basis of the Group's projects are the same with or without the arrangement with THTF under the 2019 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, although previous projects with similar scope can still serve as a highly comparable reference; (v) since the sales contracts and supply contracts are project-based, there will not be many similar projects in a short period of time which can be taken as a reference of contract price; (vi) the price ranges of at least two similar projects will only serve as an indication of the 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 is not expected have changes that will lead to a significant fluctuation in the contract price within any given 12-month period. Further, prices of Nominee Projects entered into since the completion of the Group's acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Business, which will be used as part of the indicated price range, were negotiated directly by the Group in the first place.

Term : A term of three years from 1 January 2020 to 31 December 2022

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As confirmed by the Directors and based on our review of the terms of each of the 2019 Business Arrangements Agreement and the 2017 Business Arrangements Agreement, save for the term and the revision of the annual caps, the terms of the 2019 Business Arrangements Agreement are the same as compared to the terms of the 2017 Business Arrangements Agreement, details of which are set out in the section headed "Internal Control" in the Letter from the Board.

As advised by the management of the Group, a price range indicated by only two project prices 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 who are Independent Third Parties; (ii) THTF will not involve in the negotiation of contract prices and will only act as the contracting party of the sales contracts and supply contracts in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses under the instruction 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 Company's other subsidiaries, such that the pricing basis of the Group's projects are the same with or without the arrangement with THTF under the 2019 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 ranges 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 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 2019 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

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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. In light of the above, we consider the pricing basis of the new sales contracts and supply contracts is fair and reasonable.

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 instruction 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 2019 Business Arrangements Agreements are on normal commercial terms and the in the transactions contemplated under the 2019 Business Arrangements Agreement is entered into in the ordinary and usual course of business of the Group.

As disclosed in the Letter from the Board, pursuant to the 2019 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. As mentioned in the above, the Group has adopted certain internal control measures in relation to the 2017 Business Arrangements Agreement and such internal control measures shall continue to be applied on the 2019 Business Arrangements Agreement, details of which are set out in the section headed "Internal Control" in the Letter from the Board.

We have obtained and reviewed the aforesaid internal control policies and discussed with the management of the Group with respect to the monitoring of the transactions under the 2019 Business Arrangements Agreements. Pursuant to the internal control policies, it is noted that (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 transfer amounts; (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 instruct THTF to enter into such contracts; and (vii) proper checking on contracts and transactions will be performed given the above internal control measures. Based on the above, we consider that different functions and duties are segregated among different departments and personnel of the Group, and that proper checks and approvals are required to monitor the transactions, accordingly we are of the view that the aforesaid internal controls are reasonable for the purpose of monitoring the

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transactions among the Group, THTF, the future customers and/or the future suppliers under the 2019 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 2019 Business Arrangements Agreement; and (iii) THTF will not be entitled to any additional fees or compensation for any transactions between the Group and THTF under the 2019 Business Arrangements Agreement, we are of the opinion that the terms of the 2019 Business Arrangements 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 2017 Business Arrangements Agreement for the years ended 31 December 2017, 2018 and the year ending 31 December 2019 amounted to RMB1,200.0 million, RMB1,500.0 million and RMB1,600.0 million, respectively, for the payments to be transferred by THTF to the Group; and RMB1,000.0 million, RMB1,250.0 million and RMB1,300.0 million, respectively, for the payments to be 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 2017 Business Arrangements Agreement for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, and the utilisation rates of the Existing Annual Caps for Business during the respective years/period:

	For the year ended		For the year ended		For the	
	31 December 2017		31 December 2018		nine months ended	
	Utilisation		Utilisation		Utilisation	
	Actual	rate	Actual	rate	Actual	rate
amount	(Note)	amount	(Note)	amount	(Note)	
RMB		RMB		RMB		
million	%	million	%	million	%	
Payments transferred by THTF to the Group	940.8	78.4	1378.8	91.9	591.9	37.0
Payments transferred by the Group to THTF	796.6	79.7	954.0	76.3	647.8	49.8

Note: The utilisation rate is derived by dividing the amount of actual payments in each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 by the Existing Annual Caps for Business.

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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 for the years ended 31 December 2017 and 2018 with the utilisation rates reaching about 78.4% and 91.9%, respectively, and payments transferred by the Group to THTF for the years ended 31 December 2017 and 2018 with the utilisation rates reaching about 79.7% and 76.3%, respectively.

As advised by the management of the Group, although the payments transferred by THTF to the Group and payments transferred by the Group to THTF for the nine months ended 30 September 2019 with the utilisation rates reaching approximately 37.0% and 49.8%, respectively, it is expected that such Existing Annual Caps for Business for the year ending 31 December 2019 will be substantially utilised taking into account the seasonality of payments pattern between THTF and the Group. For reference, we have obtained and reviewed the payment schedule of transfers by THTF to the Group and by the Group to THTF prepared by the management of the Group and noted that during the years ended 31 December 2017 and 2018, approximately 91.8% and 56.9% of the total payment transferred by THTF to the Group and approximately 51.4% and 33.0% of the total payment transferred by the Group to THTF for those years were made during the last quarter, respectively. We have also sample checked the contracts and payment records of the relevant payment between THTF and the Group for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 and noted that the payment records correspond to the information contained in the settlement schedule provided by the Company and is consistent with the above historical payment pattern.

3.2 *Basis and assessment of the Annual Caps*

The table below sets out the proposed 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 2019 Business Arrangement Agreement for each of the years ending 31 December 2020, 2021 and 2022 (the “**Annual Cap(s) for Business**”):

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Payments to be transferred by THTF to the Group	1,600.0	1,600.0	1,600.0
Payments to be transferred by the Group to THTF	1,300.0	1,300.0	1,300.0

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As disclosed in the Letter from the Board, in arriving at the Annual Caps for Business, the Company has taken into account several factors, including:

(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.

We have reviewed the schedule of large-scale projects under Intelligent Rail Transit, Building and Urban Heating Network Businesses which are currently ongoing or under negotiation and are likely will be undertaken by the Group, and have sample checked contracts of the Nominee Projects which are currently ongoing as at the Latest Practicable Date. Based on the contract sum and payment terms of such large-scale projects, the Directors expected that there will be approximately RMB585.2 million, RMB428.4 million and RMB318.1 million payments to be transferred by THTF to the Group, representing approximately 36.6%, 26.8% and 19.9% of the corresponding Annual Caps for Business for each of the years ending 31 December 2020, 2021 and 2022, 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.

We have reviewed the historical settlement schedule of payments of contract prices in respect of the Intelligent Rail Transit, Building and Urban Heating Network Businesses provided by the Company in 2017, 2018 and 2019 and sample checked sales contracts and records of the relevant payment received from THTF for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 amongst the Group, THTF and the customers in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses. We noted that the payment records correspond to the information contained in the settlement schedule provided by the Company and is consistent with the above historical payment pattern. Accordingly, we considered we have reviewed sufficient information to ascertain the settlement schedule of payment.

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- (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.

As advised by the management of the Group, the Group would record cost of sales in corresponding 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 Intelligent Rail Transit, Building and Urban Heating Network Businesses in 2017, 2018 and 2019 provided by the Company, and sample checked the supply contracts and payments for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 among the Group, THTF and the suppliers in relation to the Intelligent Rail Transit, Building and Urban Heating Network Businesses, we noted that the payment record is consistent with the above payment pattern. Accordingly, we considered we have reviewed sufficient information to ascertain the settlement schedule of payment.

- (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 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.

The Group's business covers three segments, including smart transportation business, smart building and complex business and smart energy business, whereas the Intelligent Rail Transit, Building and Urban Heating Network Businesses guarantee revenue to each of these segments, depending on the contract. As such, the overall gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses is in close proximity to the Group's gross profit margin. We have reviewed the annual reports of the Company for the years ended 31 December 2017 and 2018, and noted that the gross profit margins of the Group ranged from approximately 23.4% to 25.0% during

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the years from 2016 to 2018, which were generally stable. As advised by the management of the Group, the Group is targeted that the overall gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses would remain at a similar level for the three years ending 31 December 2022.

- (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, taking into account industry trends and macro-economic factors, coupled with the Group's targeted growth rate. In particular, the Company notices substantial increase in the number of new contracts entered into in the nine months ended 30 September 2019, and estimates that such growth trend may continue for the upcoming years. Notwithstanding the expected continued growth of the Intelligent Rail Transit, Building and Urban Heating Network Businesses and the corresponding general increase in the number of relevant contracts, with the continuing endeavours of the Group in securing contracts directly with customers independent of THTF, the Company estimates that the payments to be transferred by THTF to the Group or by the Group to THTF will remain relatively stable in absolute terms, as reflected in the proposed annual caps under the 2019 Business Arrangements Agreement, and will experience a decreasing trend in percentage terms relative to our Group's revenue.

According to the annual report of the Company for the year ended 31 December 2018, revenue of the Group grew steadily by approximately 2.9% for the year, which was primarily attributable to the release of the accumulated smart transportation business preliminary projects. As advised by the management of the Group, the Directors expect such growth trend may continue for the upcoming years, after taking into account (a) the revenue recognised for the nine months ended 30 September 2019; and (b) new contracts and projects in the pipeline. In addition, we were advised that the total contract sum of new contracts entered into in the nine months ended 30 September 2019 amounted to RMB1,944.7 million, while the aggregated nominal contract amount allocated to the remaining performance obligations under the Group's existing contracts was approximately RMB3,093.8 million as at 31 December 2018. As such, we concur with the Directors that the Intelligent Rail Transit, Building and Urban Heating Network Businesses may continue to grow for the upcoming years. On the other hand, we noted that the contracts entered into by THTF as a percentage of the total contracts demonstrated a decreasing trend for the years ended 31 December 2016, 2017 and 2018. We have reviewed the schedule of estimated revenue expected to be generated from the Nominee

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Projects through the term of the 2019 Business Arrangements Agreement, and their expected contribution to the Group's estimated total revenue, and have sample checked the contracts of the Nominee Projects which are currently ongoing as at the Latest Practicable Date. Based on such schedule, the estimated revenue expected to be generated from the Nominee Projects as a percentage of the Group's estimated total revenue are anticipated to be approximately 49.5%, 47.8% and 45.9% for the years ending 31 December 2020, 2021 and 2022, which demonstrates a decreasing trend. Given the above, we concur with the Directors that it is reasonable to estimate the Annual Caps for Business will remain relatively stable in absolute terms and will experience a decreasing trend in percentage terms relative to the Group's revenue for the years ending 31 December 2020, 2021 and 2022.

Based on the aforesaid, we consider the bases of determination of the Annual Caps for Business are fair and reasonable.

C. The 2019 Sales Agreement

1. Reasons for and benefits of the 2019 Sales Agreement

As disclosed in the Letter from the Board, 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 are of the view that the 2019 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 2019 Sales Agreement, the Group agreed to sell intelligent energy saving related products, equipment and services, which include control security systems, fire alarm systems and energy saving equipment, to the Tongfang Group. 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 2019 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 2019 Sales Agreement*

The 2019 Sales Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Sales Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 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 intelligent energy saving related products, equipment and services, which include control security systems, fire alarm systems and energy saving equipment, to the Tongfang Group for a term of three years from 1 January 2020 to 31 December 2022.

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 the 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. 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 2020 to 31 December 2022

As confirmed by the Directors and based on our review of the terms of each of the 2019 Sales Agreement and the 2017 Sales Agreement, save for (i) the term and the revision of the annual caps; and (ii) expansion of category of products, equipment and services from building and municipal infrastructure construction related to intelligent energy saving related, the terms of the 2019 Sales Agreement are the same as compared to the terms of the 2017 Sales Agreement.

As noted from the above, the price of the products and services sold by the Group would make reference to, among others, the prevailing market rate determined based on Comparable Sales Transaction during the 12-Month Sales Period, or 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. Upon our enquiry, we understand from the management of the Group that (i) the products supplied or services provided in each project will not be identical to other projects previously undertaken by the Group; (ii) there will not have similar projects in a short period of time which can be taken as a Comparable Sales Transactions to determine the price 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 lead to a significant contract price fluctuation within a 12-month period. Given the above, we concur with the Directors that the pricing basis under the 2019 Sales Agreement is fair and reasonable.

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Taking into consideration that (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 Party customers; (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 2019 Sales Agreement are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and the 2019 Sales Agreement is entered in the ordinary and usual course of business of the Group.

As required under the Listing Rules, the independent non-executive Directors and the auditors of the Company will review the transactions under the 2019 Sales Agreement annually to ensure that the 2019 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. We have discussed with the management of the Group and were given to understand that the Group has adopted specific internal control measures to monitor the compliance of the pricing terms under the 2017 Sales Agreement and such measures shall continue to be adopted to monitor the compliance of the pricing terms under the 2019 Sales Agreement and ensure the Annual Caps for Sales (as defined below) approved by the Independent Shareholders will not be exceeded, details of which are set out in the section headed "Internal Control" in the Letter from the Board. We noted that different functions and duties are clearly segregated among different departments and personnel of the Group and that proper checks and approvals are required to monitor the transactions, accordingly we are of the view that the aforesaid internal controls are reasonable for the purpose of monitoring the transactions between the Group and Tongfang Group under the 2019 Sales Agreement.

3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the 2017 Sales Agreement for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 amounted to RMB120.0 million, RMB280.0 million and RMB300.0 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 2017 Sales Agreement for the years ended 31 December 2017 and 2018 and the nine months ending 30 September 2019 and the utilisation rates of the Existing Annual Caps for Sales during the respective years/period:

For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
Actual amount	Utilisation rate	Actual amount	Utilisation rate	Actual amount	Utilisation rate
<i>RMB million</i>	<i>(Note)</i> %	<i>RMB million</i>	<i>(Note)</i> %	<i>RMB million</i>	<i>(Note)</i> %
113.3	94.4	65.7	23.5	32.2	10.7

Note: The utilisation rate is derived by dividing the amount of actual sales for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 by 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 2017 with the utilisation rate reaching about 94.4%, whereas the utilisation rates for the year ended 31 December 2018 and the nine months ended 30 September 2019 were relatively low at approximately 23.5% and 10.7%, respectively. As advised by the management of the Group, such relatively low utilisation rates were primarily due to (i) the delayed projects of Tongfang Group, particularly those relating to its intelligent buildings and non-energy saving buildings businesses (“**Delayed Sales Projects**”), the products and services provided by the Group to Tongfang Group experienced a considerable one-off decrease for the year ended 31 December 2018; and (ii) the Group generally issue invoice for progress payment of projects for energy saving products and services with reference to the work done towards the last quarter of each year. As such, the amount of products and services sold to Tongfang Group for the nine months ended 30 September 2019 does not reflect the full extent of the amount of products and services to be sold to Tongfang Group for the full year ending 31 December 2019.

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3.2 Basis and assessment of the Annual Caps

The table below sets out the proposed Annual Caps under the 2019 Sales Agreement for each of the years ending 31 December 2020, 2021 and 2022 (the “Annual Cap(s) for Sales”):

For the year ending 31 December		
2020	2021	2022
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
250.0	300.0	350.0

As disclosed in the Letter from the Board, in arriving at the Annual Caps for Sales, the Company has taken into account several factors, including:

(i) Historical transaction amount:

The historical sales amount that the Group sold to Tongfang Group under the previous sale agreements, and the historical patterns, including seasonality and proportions of payment each year. Notwithstanding the relatively low utilisation rates of the Existing Annual Caps for Sales for the year ended 31 December 2018 and the nine months ending 30 September 2019 were relatively low, which was mainly resulted from the Delayed Sales Projects, the Directors expected that such shortfall in forecasted sales would be belatedly added back during the years following 2018, leading to an increase in subsequent transaction amounts. We have sample checked the sales contracts of the Delayed Sales Projects and payment records between the Group and Tongfang Group and noted part of the revenue generated from the Delayed Sales Projects has been added back for the year ending 31 December 2019. Moreover, the Group will invoice for progress payment of the energy saving projects with reference to the work done towards the last quarter each year. As such, the Group expects that an appreciable portion of sales under the 2017 Sales Agreement for the year ending 31 December 2019 will be generated towards the end of 2019. In this regard, we have obtained and reviewed the historical transaction provided by the Group, and sample checked the sales contracts and payment records between the Group and Tongfang Group for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019. We noted that during the years from 2017 to 2018, approximately 61.9% to 64.1% of the total sales amount of the year were recorded by the Group during the fourth quarter, whereas the total sales amount of approximately RMB32.2 million for the first three quarters of 2019 exceeded the corresponding amount of approximately RMB23.6 million for the same period in 2018, indicating the total sales amount for the year ending 31 December 2019 is in line with the historical transaction amount.

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(ii) Forecasted sales amount:

The forecasted sales amount is estimated to be approximately RMB246.0 million, RMB290.4 million and RMB346.5 million for each of the years ending 31 December 2020, 2021 and 2022, respectively. The forecasted sales amount is estimated based on discussions with Tongfang Group taking into account new contracts and projects in the pipeline, including the expected business growth of Tongfang Group for the years ending 31 December 2020, 2021 and 2022. In particular, the Group expects a considerable increase in sales to the Tongfang Group in relation to its energy saving and cooling business from 2020 onwards. The growth for the sales to Tongfang Group also takes into account the targeted growth rate of the Group, which is estimated to be approximately 12.7%, 13.1% and 13.4% for each of the years ending 31 December 2020, 2021 and 2022, respectively, taking into account the historical growth rate, the expected development and the forecasted growth trend of each of the three major business segments of the Group, namely smart transportation, smart building and complex and smart energy.

Having considered that (i) the Group made successful tenders in relation to the smart transportation business to explore the new markets in Northern PRC including Hohhot, the capital of Inner Mongolia and Xinbing Manchu Autonomous County under Fushun City of Liaoning Province as disclosed in the annual report of the Company for the year ended 31 December 2018; (ii) the Group has secured multiple projects to implement its strategy of expanding the smart building and complex business in the Beijing-Tianjin-Hebei area, the Guangdong-Hong Kong-Macao Greater Bay and the starting points of the Belt Road Initiative; and (iii) the PRC's "13th Five-Year Plan" stated that the PRC aims to lower its energy consumption per unit of GDP by 15% in 2020 as compared to that of 2015 in order to cope with the challenges posed by climate change, the Directors are of the view and we concur that there will be substantial growth for the Group's business in the coming years.

We have reviewed the schedule of sales contracts which are currently ongoing or under negotiation and are likely will 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 RMB205.0 million sales to Tongfang Group, representing approximately 82.0% of the Annual Caps for Sales for the year ending 31 December 2020. We have sample checked contracts of the aforementioned expected total sales to Tongfang Group.

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As stated in the above, it is expected that the Intelligent Rail Transit, Building and Urban Heating Network Businesses may continue to grow for the upcoming years, as evidenced by the total contract sum of new contracts entered into by the Group in the nine months ended 30 September 2019. As confirmed by the Directors, it is also Tongfang Group's intention to expand its business cooperation with the Group in the coming years. Given the above, the Directors expect that the sales to the Tongfang Group would continue to increase for the year ending 31 December 2021 and 2022.

(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 2017 and 2018 and noted that the gross profit margins of the Group ranged from approximately 23.4% to 25.0% during the years from 2016 to 2018. As advised by the management of the Group, it is targeted that the gross profit margin of the Group would remain at a similar level for the three years ending 31 December 2022.

Based on the foregoing, we consider the bases of determination of the Annual Caps for Sales under the 2019 Sales Agreements are fair and reasonable.

D. The 2019 Purchase Agreement

1. *Reasons for and benefits of the 2019 Purchase Agreement*

As disclosed in the Letter from the Board, 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 are of the view that the 2019 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 2019 Purchase Agreement, THTF agreed to sell or procure such other parties agreed by Technovator Beijing, including members of the 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. 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 2019 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.

2. *Principal terms of the 2019 Purchase Agreement*

The 2019 Purchase Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Purchase Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 Purchase Agreement is set out below:

Subject matter : THTF agreed to sell or procure such other parties agreed by Technovator Beijing, including members of the 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 2020 to 31 December 2022.

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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
- (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 the Tongfang Group.

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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 the 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.

The 2019 Purchase Agreement contains no provision that (i) requires the Group to purchase such goods or services exclusively from Tongfang Group during the term of the agreement; or (ii) stipulates any committed or minimum purchase quantity or amount by the Group.

Term : A term of three years from 1 January 2020 to 31 December 2022

As confirmed by the Directors and based on our review of the terms of each of the 2019 Purchase Agreement and the 2017 Purchase Agreement, save for the term and the revision of the annual caps, the terms of the 2019 Purchase Agreement are the same as compared to the terms of the 2017 Purchase Agreement.

As noted from the above, 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 Comparable Purchase Transaction during the 12-Month Purchase Period, or 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.

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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 project to be undertaken by the Group which falls within the ordinary business of the Group, we consider the terms of the 2019 Purchase Agreement are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and the 2019 Purchase Agreement is entered into in the ordinary and usual course of business of the Group.

As required under the Listing Rules, the independent non-executive Directors and the auditors of the Company will review the transactions under the 2019 Purchase Agreement annually to ensure that the 2019 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. We have discussed with the management of the Group and were given to understand that the Group has adopted specific internal control measures to monitor the compliance of the pricing terms under the 2017 Purchase Agreement and such measures shall continue to be adopted to monitor the compliance of the pricing terms under the 2019 Purchase Agreement and ensure the Annual Caps for Purchase (as defined below) approved by the Independent Shareholders will not be exceeded, details of which are set out in the section headed “Internal Control” in the Letter from the Board. We noted that different functions and duties are clearly segregated among different departments and personnel of the Group and that proper checks and approvals are required to monitor the transactions, accordingly we are of the view that the aforesaid internal controls are reasonable for the purpose of monitoring the transactions between the Group and Tongfang Group under the 2019 Purchase Agreement.

3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the 2017 Purchase Agreement for the years ended 31 December 2017, 2018 and 2019 amounted to RMB150.0 million, RMB280.0 million RMB300.0 million (the “**Existing Annual Cap(s) for Purchase**”).

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The table below sets out the actual aggregate amount of purchase made by the Group from Tongfang Group under the 2017 Purchase Agreement for the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019 and the utilisation rates of the Existing Annual Caps for Purchase during the respective years/period:

For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
Actual amount	Utilisation rate	Actual amount	Utilisation rate	Actual amount	Utilisation rate
<i>RMB million</i>	<i>(Note)</i> %	<i>RMB million</i>	<i>(Note)</i> %	<i>RMB million</i>	<i>(Note)</i> %
133.0	88.7	99.3	35.5	32.3	10.8

Note: The utilisation rate is derived by dividing the amount of actual cost in the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 by the Existing Annual Caps for Purchase.

With reference to the utilisation rates as tabulated above, we noted that the Company has substantially utilised the Existing Annual Caps for Purchase for the year ended 31 December 2017 with the utilisation rates reaching about 88.7%, whereas the utilisation rates for the year ended 31 December 2018 and the nine months ended 30 September 2019 were relatively low at approximately 35.5% and 10.8%, respectively. As advised by the management of the Group, such relatively low utilisation rates were primarily due to (i) delayed projects of the Group particularly in relation to the Intelligent Urban Heating Network Business (“**Delayed Purchase Projects**”), the products and services provided by Tongfang Group to the Group experienced a considerable one-off decrease for the year ended 31 December 2018; and (ii) residual heat products related procurement is generally carried out in the last quarter of each year as heating related work has the highest demand during the winter months. As such, the amount of products and services procured by the Group for the nine months ended 30 September 2019 does not reflect the full extent of the amount of products and services to be procured by the Group for the full year ending 31 December 2019.

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3.2 Basis and assessment of the Annual Caps

The table below sets out the proposed Annual Caps under the 2019 Purchase Agreement for each of the years ending 31 December 2020, 2021 and 2022 (the “Annual Cap(s) for Purchase”):

For the year ending 31 December		
2020	2021	2022
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
200.0	250.0	300.0

As disclosed in the Letter from the Board, in arriving at the Annual Caps for Purchase, the Company has taken into account several factors, including:

(i) Historical transaction amount:

The historical procurement amount that the Group procured from Tongfang Group under previous purchase agreements, and the historical patterns, including seasonality and proportions of payment each year. Notwithstanding the relatively low utilisation rates of the Existing Annual Caps for Purchase during the year ended 31 December 2018 and the nine months ending 30 September 2019, which was mainly resulted from the Delayed Purchase Projects, the Directors expect such shortfall in forecasted procurement to be belatedly added back during the following years with the commencement of the Delayed Purchase Projects after 2018, leading to an increase in subsequent transaction amounts. We have sample checked the supply contracts of the Delayed Purchase Projects and payment records between the Group and Tongfang Group and noted part of the purchase amount of the Delayed Purchase Projects has been added back for the year ending 31 December 2019. Further, residual heat products related procurement is generally carried out in the last quarter of each year as heating related work has the highest demand during the winter months. As such, the Group expects that an appreciable portion of purchases under the 2017 Purchase Agreement for the year ending 31 December 2019 will be procured by the Group towards the end of 2019.

In this regard, we have obtained and reviewed the historical transaction provided by the Group, and sample checked the supply contracts between the Group and Tongfang Group for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019. We noted that during the years from 2017 to 2018, approximately 73.0% to 89.2% of the total purchase amount of the year were recorded by the Group during the fourth quarter, whereas the total purchase amount of approximately RMB32.3 million for the first three quarters of 2019 exceeded the corresponding amount of approximately RMB26.8 million for the same period in 2018, indicating the total purchase amount for the year ending 31 December 2019 is in line with the historical transaction amount.

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(ii) Forecasted procurement amount:

The forecasted procurement amount is estimated to be approximately RMB198.0 million, RMB239.3 million and RMB291.9 million for each of the years ending 31 December 2020, 2021 and 2022, respectively. The forecasted sales amount is estimated based on expected demand for products and services with references to historical amounts and expected business growth. The Group has recently commenced its network source integration and cold storage business, which is expected to lead to further procurement of products such as heating pumps from Tongfang Kawasaki and cooling facilities from the energy storage department of Tongfang Group. 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. Additionally, the growth of the business of the Group is also expected to lead to an overlap in the commencement period of some of the projects. To ensure the implementation quality of these projects, the Group is expected to engage Tongfang Group to provide certain implementation testing services. The procurement of these products and services are assumed to increase at a rate based on the expected growth of the business and the targeted growth rate of the Group, which is estimated to be approximately 12.7%, 13.1% and 13.4% for each of the years ending 31 December 2020, 2021 and 2022, respectively, taking into account the historical growth rate, the expected development and the forecasted growth trend of each of the three major business segments of the Group, namely smart transportation, smart building and complex and smart energy.

In respect to the above, we have reviewed the schedule of procurement contracts which are currently ongoing or under negotiation and are likely will be undertaken by the Group. Based on the contract sum and payment terms of such contracts, the Directors expect that the Group will have approximately RMB165.0 million procurement of products and equipment in relation to the energy saving business from Tongfang Group, representing approximately 82.5% of the Annual Caps for Purchase for the year ending 31 December 2020. We have also sample checked draft procurement contracts that the Group is negotiating with Tongfang Group as at the Latest Practicable Date. 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 industrial practice, suppliers historical payment pattern and expected project progress.

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(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 2019 Purchase Agreement will correspondingly increase.

We have discussed with management of the Group and were given to understand that the increase in procurement cost was in line with the increase in revenue during the past years and expected to record a further growth for the coming years. We have reviewed the annual reports of the Company for the years ended 31 December 2016, 2017 and 2018, and noted that the cost of sales represents approximately 76.0%, 75.0% and 76.6% of the revenue for the years ended 31 December 2016, 2017 and 2018, which were generally stable and was in line with the increase in revenue during the years from 2016 to 2018.

Based on the aforesaid, we consider the bases of determination of the Annual Caps for Purchases under the 2019 Purchase Agreements are fair and reasonable.

E. The 2019 Master Agreement

1. *Reasons for and benefits of the 2019 Master Agreement*

As disclosed in the Letter from the Board, maintaining the sales of goods to the Tongfang Group has a positive contribution to the operating revenue of the Group and the Tongfang Group has proven to be one of the reliable suppliers to the Group at competitive prices which has a positive contribution to the business and operations of the Group. Pursuant to the 2019 Master Agreement, the Group may provide to or receive from Tongfang Group miscellaneous products and services as may be required to satisfy the operational needs of the Group/Tongfang Group from time to time in the ordinary course of business of the Group. In view of the transactions contemplated under the 2019 Master Agreement will facilitate (i) the sales of products and services from the Group to Tongfang Group; and (ii) the procurement of products and services from Tongfang Group by the Group of miscellaneous nature, given the mutual beneficial relationship between the Group and the Tongfang Group, we concur with the Directors that the 2019 Master 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Principal terms of the 2019 Master Agreement*

The 2019 Master Agreement was entered into on 24 October 2019 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2019 Master Agreement of three years from 1 January 2020 to 31 December 2022.

A summary of the principal terms of the 2019 Master Agreement is set out below:

Subject matter : The Group may provide to or receive from Tongfang Group miscellaneous products and services as may be required to satisfy the operational needs of the Group/Tongfang Group from time to time in the ordinary course of business of the Group in accordance with the terms and conditions of the 2019 Master Agreement for a term of three years from 1 January 2020 to 31 December 2022.

Pursuant to the 2019 Master Agreement, the miscellaneous products and services provided by the Group to Tongfang Group mainly include (i) rental services (including leasing of land and premises); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services but exclude any transactions contemplated under the 2019 Sales Agreement.

The miscellaneous products and services provided by Tongfang Group to the Group mainly include (i) rental services (including leasing of land, premises, machinery and equipment); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services, other than the Existing Trademark License Agreements and any transactions contemplated under the 2019 Purchase Agreement.

Consideration and payment : For the sale of ready-made products or the provision of standardised services, the price for such products or services shall be 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.

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

For the acquisition of products or services, 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 condition as offered by the Tongfang Group are fair and reasonable and similar to those offered by Independent Third Parties.

For the sharing of general administration and management support services, the fees payable or receivable by the Group are determined based on the direct cost of the human resources providing such services, the actual overhead costs incurred by the relevant offices and the number of entities sharing the services provided by the relevant office.

The prices at which the Group or Tongfang Group provides such services will be based on the following pricing mechanism in the following order of priority:

- (i) government-prescribed price (including any price prescribed by any relevant local government, if applicable);
- (ii) where there is no government-prescribed price but there is a government-guidance price, then the government-guidance price;
- (iii) where there is neither a government-prescribed price nor a government-guidance price, the prevailing market price with reference to the nature of the same or similar type of products and services (including location, size of properties, ancillary facilities and equipment) provided by the Independent Third Parties in the ordinary course of business of the Group; or

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- (iv) where none of the above is applicable or where it is not practical to apply the above pricing policies, then the price agreed between the relevant parties shall be based on arm's length negotiation and shall be the reasonable costs incurred in providing the products plus reasonable profits.

As disclosed in the Letter from the Board, based on the Group's current discussions with Tongfang Group, the Group expects that government-prescribed prices and government-guidance prices will generally not be applicable to the goods and services to be provided by or to the Group under the 2019 Master Agreement.

The actual price will be separately determined on arm's length basis and agreed between the Group and Tongfang Group prior to their entering into of each transaction based on the above pricing mechanism. Therefore, such price will be comparable to or no less favorable to the Group than the market price of the same or similar type of products and services available from Independent Third Parties.

In respect of services or products provided by the Group to THTF, 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. 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.

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In respect of services or products provided by the THTF to the Group, 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 ("**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 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 the Tongfang 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.

The relevant pricing mechanism was determined by the parties after arm's length negotiations with reference to the pricing principles of similar transactions previously carried out by the Group.

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All transaction amounts shall be paid before the 15th day of the next month after set-off. Interests shall be accrued on any amounts overdue for more than one month at the prevailing bank lending rate.

Term : A term of three years from 1 January 2020 to 31 December 2022

As confirmed by the Directors and based on our review of the terms of each of the 2019 Master Agreement and the 2017 Master Agreement, save for the term and the revision of the annual caps, the terms of the 2019 Master Agreement are the same as compared to the terms of the 2017 Master Agreement.

As noted from the above, (i) the sales of products and provision of services by the Group shall be no less favorable than those given to Independent Third Parties; (ii) the sales of products and provision of services by the Tongfang Group to the Group are not less favourable than those offered to Independent Third Parties; (iii) for the acquisition of products or services, 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 condition as offered by the Tongfang Group are fair and reasonable and similar to those offered by Independent Third Parties; (iv) the pricing mechanism is determined based on government-prescribed price or government-guidance price, or if there is no government-prescribed price or government-guidance price, the prevailing market price with reference to the nature of the same or similar type of products and services provided by the Independent Third Parties in the ordinary course of business of the Group; (v) the relevant pricing mechanism was determined by the parties after arm's length negotiations with reference to the pricing principles of similar transactions previously carried out by the Group; and (vi) the transactions contemplated under the 2019 Master Agreement will facilitate the sales of products and services from the Group to Tongfang Group, and the procurement of products and services from Tongfang Group by the Group of miscellaneous nature, we are of the opinion that the terms of the 2019 Master Agreement are on normal commercial terms 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 2019 Master Agreement annually to ensure that the 2019 Master Agreement are entered into in the ordinary course of business of the Company, its terms are fair and reasonable and on normal commercial terms. We have discussed with the management of the Group and were given to understand that the Group has adopted specific internal control measures to monitor the compliance of the pricing terms under the 2017 Master Agreement and such measures shall continue to be adopted to monitor the compliance of the pricing terms under the 2019 Master Agreement and ensure the Annual Caps for Master (as defined below) approved by the Independent Shareholders will not be exceeded, details of which are set out in the section headed "Internal Control" in the Letter from the Board. We noted that different functions and duties are clearly segregated among different departments and personnel of the Group and that proper checks and approvals are required to monitor the transactions, accordingly we are of the view that the aforesaid internal controls are reasonable for the purpose of monitoring the transactions between the Group and Tongfang Group under the 2019 Master Agreement.

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3. *The Annual Caps*

3.1 *Historical transaction amount and existing annual caps*

The existing annual caps under the 2017 Master Agreement for the years ended 31 December 2017, 2018 and the year ending 31 December 2019 amounted to RMB30.0 million, RMB40.0 million and RMB50.0 million, respectively, for the provision of miscellaneous products and services by the Group to Tongfang Group; and RMB30.0 million, RMB40.0 million and RMB50.0 million, respectively, for the receipt of miscellaneous products and services by the Group from Tongfang Group (the “Existing Annual Cap(s) for Master”).

The table below sets out the actual aggregate amount of provision of miscellaneous products and services by the Group to Tongfang Group and receipt of miscellaneous products and services by the Group from Tongfang Group under the 2017 Master Agreement for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, and the utilisation rates of the Existing Annual Caps for Master during the respective years/period:

	For the year ended 31 December 2017		For the year ended 31 December 2018		For the nine months ended 30 September 2019	
	Utilisation		Utilisation		Utilisation	
	Actual amount	rate (Note)	Actual amount	rate (Note)	Actual amount	rate (Note)
	RMB million	%	RMB million	%	RMB million	%
Provision of miscellaneous products and services by the Group to Tongfang Group	-	-	-	-	-	-
Receipt of miscellaneous products and services by the Group from Tongfang Group	25.7	85.7	25.9	64.8	15.6	31.2

Note: The utilisation rate is derived by dividing the amount of actual payments in each of the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 by the Existing Annual Caps for Master.

With reference to the utilisation rates as tabulated above, we noted that the Company has substantially utilised the Existing Annual Caps for Master for the receipt of miscellaneous products and services by the Group from Tongfang Group for the years ended 31 December 2017 and 2018 with the utilisation rates reaching about 85.7% and 64.8%, respectively.

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As advised by the management of the Group, although the Existing Annual Caps for Master for the receipt of miscellaneous products and services by the Group from Tongfang Group only utilised to approximately 31.2% for the nine months ended 30 September 2019, it is expected that such Existing Annual Caps for Master for the year ending 31 December 2019 will be substantially utilised taking into account the expected increase in receipt of miscellaneous products and services by the Group from Tongfang Group by the end of 2019 to be discussed below.

For the years ended 31 December 2017 and 2018 and for the nine months ended 30 September 2019, there was no provision of miscellaneous products and services by the Group to Tongfang Group. As advised by the management of the Group, prior to the second half of 2019, none of the potential arrangements has materialised and therefore, as of 30 September 2019, there has been no provision of miscellaneous products and services by the Group to Tongfang Group under the 2017 Master Agreement.

3.2 *Basis and assessment of the Annual Caps*

The table below sets out the proposed Annual Caps for provision of miscellaneous products and services by the Group to Tongfang Group and receipt of miscellaneous products and services by the Group from Tongfang Group under the 2019 Master Agreement for each of the years ending 31 December 2020, 2021 and 2022 (the “**Annual Cap(s) for Master**”):

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Provision of miscellaneous products and services by the Group to Tongfang Group	30.0	40.0	50.0
Receipt of miscellaneous products and services by the Group from Tongfang Group	50.0	60.0	70.0

As disclosed in the Letter from the Board, in arriving at the Annual Caps for Master, the Company has taken into account several factors, including:

(i) **Historical transaction amount:**

For the receipt of miscellaneous products and services by the Group from Tongfang Group, the actual amount of procurement by the Group during the historical periods, and the expected increase of the procurement of such products and services. As stated in the above, the Existing Annual Caps for Master for the receipt of miscellaneous products and services by the Group from Tongfang Group for the years ended 31 December 2017 and 2018 have been substantially utilised. We

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have discussed with the management of the Group and were given to understand that the historical transaction in respect of the receipt of miscellaneous products and services by the Group from Tongfang Group shall continue to carry on for the three years ending 31 December 2022.

(ii) Increase in rental costs

For the rental services provided by Tongfang Group to the Group, rental costs for such rental services (including leasing of land, premises, machinery and equipment) is expected to increase at a rate of 10% per year based on the latest market trend of rental prices and by reference to the current terms. The expected growth in the business of the Company as mentioned in (v) below is also expected to lead to an increase in the headcount of the Company and therefore rental costs of relevant premises.

(iii) New research and development needs of Tongfang Group:

During the term of the 2017 Master Agreement, the Group and Tongfang Group have discussed, amongst others, the potential provision of research and development services and products by the Group to Tongfang Group. Prior to the second half of 2019, none of the potential arrangements has materialised and therefore, as of 30 September 2019, there has been no provision of miscellaneous products and services by the Group to Tongfang Group under the 2017 Master Agreement.

Nonetheless, during the second half of 2019, the Group has commenced collaboration with Tongfang Group to provide technical support for the further development of its cooling and intelligent city businesses, and the relevant research and development services and products are expected to be invoiced by our Group starting from 2020. In this regard, we have obtained correspondences between the Group and Tongfang Group relating to the collaboration and noted that such collaboration is to provide technical support for the development of Tongfang Group's cooling and intelligent city businesses and were advised by the Directors that the collaboration is expected to commence from 2020.

Further, in 2019, Tongfang Group entered into a strategic co-operation with Tsinghua University, pursuant to which Tsinghua University commissioned Tongfang Group to provide research and development services and products related to the implementation of a number of PRC national policies. We have reviewed the National Key Research & Development Program Assignment* (國家重點研發計劃任務書) entered into between Tsinghua University and Tongfang Group which required Tongfang Group to participate in a research and

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development project related to efficient energy saving metro environmental control system under the PRC's "13th Five-Year Plan", aiming to promote the sustainable development of the subway industry and support national ecological civilisation and green development. As such, the Group is expected to provide further research and development services and products to Tongfang Group in the upcoming years, particularly in relation to the current businesses that the Group is primarily engaged in.

(iv) Increase in research and development services:

The amount of research and development services to be procured from and to provide to Tongfang Group is assumed to increase based on historical growth, existing contracts and on the new potential research and development projects in discussions between Tongfang Group and the Group including the new research and development projects mentioned in (iii) above. The expected diversification in the business of the Company is also expected to lead to an increase in the need for research and development services to be procured from THTF.

(v) Other factors:

The prevailing market rates and conditions in the PRC, anticipated growth of the business of the Group and the Tongfang Group, the sales planning, actual operating circumstances of the Group and the future sharing of support services of some of the Group's offices between the Group and Tongfang Group to accommodate their respective future development and optimise their respective costs.

In light of the above and having considered that (i) the 2019 Master Agreement and the transactions contemplated thereunder will facilitate the sales of products and services from the Group to Tongfang Group, and the procurement of products and services from Tongfang Group by the Group of miscellaneous nature; (ii) the transaction amounts are relatively small; and (iii) such payments and underlying projects will be conducted on normal commercial terms, we consider that the Annual Caps for Master are fair and reasonable.

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RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that the 2019 Agreements have been entered into within the ordinary and usual course of business of the Group 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 2019 Agreements and the transactions contemplated thereunder (including the respective Annual Caps) at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Joshua Liu
Managing Director

Mr. Joshua Liu 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). He has over 20 years of experience in the securities and investment banking industries.

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
Mr. Zhao Xiaobo	Beneficial owner	8,728,000	1.12%

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 Interest in a controlled corporation ⁽¹⁾	92,000,000 194,330,142	11.76% 24.84%
Resuccess Investments Limited	Beneficial owner	194,330,142	24.84%

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.

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 2018, 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 2018, 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 by the Securities and Futures Commission of Hong Kong 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 2018, 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 Existing Trademark License Agreements;
- (c) the 2017 Business Arrangements Agreement;
- (d) the 2017 Master Agreement;
- (e) the 2017 Purchase Agreement;
- (f) the 2017 Sales Agreement;

- (g) the 2019 Business Arrangements Agreement;
- (h) the 2019 Master Agreement;
- (i) the 2019 Purchase Agreement;
- (j) the 2019 Sales Agreement;
- (k) a letter of recommendation from the Independent Board Committee, the text of which is set out on page 52 of this circular;
- (l) a letter of advice from Lego Corporate Finance Limited, the text of which is set out on pages 53 to 104 of this circular; and
- (m) 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 3 January 2020 at 10:00 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 2019 Business Arrangements Agreement (as defined in the circular of the Company dated 16 December 2019 (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 2019 Business Arrangements Agreement, the annual caps and the transactions contemplated thereunder.”

(2) “**THAT**

- (a) the 2019 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 2019 Purchase Agreement, the annual caps and the transactions contemplated thereunder.”

(3) “**THAT**

- (a) the 2019 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 2019 Sales Agreement, the annual caps and the transactions contemplated thereunder.”

(4) “**THAT**

- (a) the 2019 Master 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 2019 Master Agreement, the annual caps and the transactions contemplated thereunder.”

By Order of the Board
Technovator International Limited
Qin Xuzhong
Chairman

Hong Kong, 16 December 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

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. Qin Xuzhong; the non-executive directors of the Company are Mr. Huang Yu, Mr. Liu Tianmin and Mr. Wang Yinghu; and the independent non-executive directors of the Company 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 Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, 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 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 December 2019.
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.