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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 2022 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 Wednesday, 15 February 2023 at 10:00 a.m. at Level 17, Silvercord Tower 2, 30 Canton Road, Tsim Sha Tsui, Hong Kong, is set out on pages 102 to 104 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 and Circular”	the announcement of the Company dated 25 October 2019 and the circular of the Company dated 16 December 2019 in relation to, among others, the continuing connected transactions under the 2019 Agreements and the related 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

## DEFINITIONS

“2019 Sales Agreement”	the sales agreement dated 24 October 2019 entered into between Technovator Beijing and THTF
“2022 Agreements”	collectively, the 2022 Purchase Agreement, the 2022 Sales Agreement, the 2022 Master Agreement and the 2022 Business Arrangements Agreement
“2022 Announcement”	the announcement dated 27 December 2022 in relation to, among others, the 2022 Agreements and the Annual Caps
“2022 Business Arrangements Agreement”	the business arrangements agreement dated 27 December 2022 entered into between Technovator Beijing, Tongfang Energy Saving and THTF
“2022 Master Agreement”	the master agreement dated 27 December 2022 entered into between Technovator Beijing and THTF
“2022 Purchase Agreement”	the purchase agreement dated 27 December 2022 entered into between Technovator Beijing and THTF
“2022 Sales Agreement”	the sales agreement dated 27 December 2022 entered into between Technovator Beijing and THTF
“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 2022 Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors

## DEFINITIONS

“Business and Assets Purchase Agreements”	the acquisition agreement entered into by Technovator Beijing as buyer and THTF as seller on 28 July 2015 in respect of the acquisition of, among others, the Intelligent Rail Transit Business, the Intelligent Building Business and certain assets related to these businesses, and the acquisition agreement entered into by Tongfang Energy Saving as buyer and THTF as seller on 28 July 2015 in respect of the acquisition of, among others, the Intelligent Urban Heating Network Business and certain related assets
“Company”	Technovator International Limited, a limited liability company incorporated in Singapore on 25 May 2005 and the issued securities of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing 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 2022 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

## DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprising all of the independent non-executive Directors, namely Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, to advise the Independent Shareholders in respect of the 2022 Agreements
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission of Hong Kong to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Agreements
“Independent Shareholders”	has the meaning ascribed thereto under Chapter 13 of the Listing Rules
“Independent Third Party(ies)”	third party/ies and their ultimate beneficial owner(s) which is/are independent of the Company and their respective connected persons
“Intelligent Building Business”	business which provide building intelligence integrated solutions which center around the Building Automation (BA) that has been developed and debugged by THTF with the energy saving algorithm
“Intelligent Rail Transit Business”	business which provide intelligence integrated solutions for the main electro-mechanical systems such as Integrated Supervision and Control System (ISCS), Platform Screen Doors (PSD) and Building Automation System (BAS)
“Intelligent Rail Transit, Building and Urban Heating Network Businesses”	the Intelligent Rail Transit Business, the Intelligent Building Business and the Intelligent Urban Heating Network Business acquired from THTF under the Business and Assets Purchase 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”	23 January 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

## DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, 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
“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

## DEFINITIONS

“THTF”	同方股份有限公司 (Tsinghua Tongfang Co., Ltd*), formerly known as 清華同方股份有限公司 (Tsinghua Tongfang Company Limited*), a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所)
“Tongfang Energy Saving”	同方節能工程技術有限公司 (Tongfang Energy Saving Engineering Technology Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Tongfang Group”	THTF, its subsidiaries and their respective associates and Affiliates, from time to time (excluding the Group)
“%”	per cent.

### ROUNDING

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

\* 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. Liang Wuquan  
Mr. Zeng Xuejie  
Mr. Zhang Jian

*Independent Non-executive Directors*

Ms. Chen Hua  
Mr. Chia Yew Boon  
Mr. Fan Ren Da Anthony

*Registered Office*

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

*Principal place of business in Hong Kong*

Level 17  
Silvercord Tower 2  
30 Canton Road  
Tsim Sha Tsui  
Hong Kong

31 January 2023

*To the Shareholders*

Dear Sir or Madam,

**(1) NEW 2022 AGREEMENTS IN RELATION TO CERTAIN  
CONTINUING CONNECTED TRANSACTIONS  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the 2022 Announcement.

The purpose of this circular is to provide you with (i) further information relating to the 2022 Agreements; (ii) the letter from the Independent Board Committee to the Independent Shareholders in respect of the 2022 Agreements; (iii) the letter from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Agreements; and (iv) the notice convening the EGM for the Shareholders to approve each of the transactions contemplated under the 2022 Agreements, and their respective proposed Annual Cap amounts.

\* *For identification purpose only*

## LETTER FROM THE BOARD

### BACKGROUND

Reference is made to the 2019 Announcement and Circular in relation to, among others, the continuing connected transactions contemplated under the 2019 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, which expired on 31 December 2019. The relevant parties entered into the 2019 Business Arrangements Agreement on 24 October 2019 to continue with the arrangements under the relevant 2017 Business Arrangements Agreement. Pursuant to the 2019 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 which expired on 31 December 2019. The relevant parties entered into the 2019 Sales Agreement, the 2019 Purchase Agreement and the 2019 Master Agreement on 24 October 2019 to continue with the arrangements under the aforementioned agreements. A summary of these agreements entered into on 24 October 2019 is set out below:

- (i) Technovator Beijing and THTF entered into the 2019 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 2020 to 31 December 2022;

## LETTER FROM THE BOARD

- (ii) Technovator Beijing and THTF entered into the 2019 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 2020 to 31 December 2022; and
- (iii) Technovator Beijing and THTF entered into the 2019 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 2019 Master Agreement for a term of three years from 1 January 2020 to 31 December 2022.

As all of the 2019 Agreements will expire on 31 December 2022, the relevant parties to each of the 2019 Agreements have agreed to continue with the arrangements under the relevant 2019 Agreement upon its expiry for a period of three years under similar terms by entering into the relevant 2022 Agreement.

### THE 2022 BUSINESS ARRANGEMENTS AGREEMENT

The 2022 Business Arrangements Agreement was entered into on 27 December 2022 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 2022 Business Arrangements Agreement is set out below:

- |         |   |  |
|---------|---|--|
| Date    | : | 27 December 2022   |
| 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;
- (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

## LETTER FROM THE BOARD

- (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.

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 2022 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.

## LETTER FROM THE BOARD

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 and the Group 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 and the Group 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 recognize contracts (including any amendments thereto) the forms of which have been approved by the Group in writing as subject to the 2022 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 2022 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.

## LETTER FROM THE BOARD

Terms : A term of three years from 1 January 2023 to 31 December 2025

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

For the year ending 31 December 2023 – RMB1,200 million

For the year ending 31 December 2024 – RMB1,260 million

For the year ending 31 December 2025 – RMB1,160 million

Payments to be transferred by the Group to THTF

For the year ending 31 December 2023 – RMB980.0 million

For the year ending 31 December 2024 – RMB1,030.0 million

For the year ending 31 December 2025 – RMB950.0 million

The annual caps only cover (i) any amount paid by THTF to the Group arising from THTF's obligations under the 2022 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 2022 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 2020 and 2021 and for the nine months ended 30 September 2022, payments transferred by THTF to the Group under the 2019 Business Arrangements Agreement amounted to approximately RMB1,256.5 million, RMB853.2 million and RMB515.6 million, respectively.

For the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022, payments transferred by the Group to THTF under the 2019 Business Arrangements Agreement amounted to approximately RMB699.5 million, RMB501.3 million and RMB373.4 million, respectively.

### Historical and Existing Annual Caps

The historical and existing annual caps for the 2019 Business Arrangements Agreement for the payments to be transferred by THTF to the Group amounted to RMB1,600.0 million for each of the years ending 31 December 2020, 2021 and 2022.

The historical and existing annual caps for the 2019 Business Arrangements Agreement for the payments to be transferred by the Group to THTF amounted to RMB1,300.0 million for each of the years ending 31 December 2020, 2021 and 2022.

## LETTER FROM THE BOARD

### Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2023, 2024 and 2025, 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 (vi) below). The expected proportion of the Group's sales attributable to Nominee Projects is approximately 45.0%, 42.8% and 30.0% for the year ending 31 December 2023, 2024 and 2025, respectively, which is consistent with the target to reduce the percentage of revenue generated from Nominee Projects to not more than 30% of the total revenue of the Group by no later than 2025;
- (ii) *Business expansion of energy-saving products:* The Group is planning business expansion of energy-saving products under Intelligent Urban Heating Network Business, including software productization and development of energy storage products. In terms of software productization, the Group has the ability to develop products independently, including but not limited to metro monitoring products derived from ezISCS integrated monitoring software, line network command center products and station operation and maintenance products, which lays the foundation for the business expansion of energy-saving products. In terms of development of energy storage products, as a leading urban energy and intelligent energy-saving service provider in China, the Group, based on the algorithm library, software library, software and hardware production and research capabilities, supporting industrial layout, and technical service system accumulated through years of intensive efforts in energy-saving products, strives to give play to the innovative advantages of production, education, and research, and is building a safe energy storage solution that comprehensively serves the power production, transmission, distribution, and users. With years of success in the field of energy saving, the Group has established a good market reputation and industry influence, which can help the Group rapidly expand the market for the energy storage products. In general, the business expansion of energy-saving products could increase the revenue generated from business operated by the Group independently and, to some extent, reduce its business reliance on THTF;
- (iii) *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

## LETTER FROM THE BOARD

percentage, representing the estimated amount of payments received by the Group each year. Based on the historical payment pattern, approximately 34.50%, 33.90% and 34.53% of the payments from the customers are received in the last quarter of each year from 2020 to 2022. As such, the payments to be transferred by THTF to the Group for the nine months ended 30 September 2022 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ending 31 December 2022. The annual caps for years ending 31 December 2023, 2024 and 2025 are calculated based on the payment amount received by the Group from THTF for the full year ending 31 December 2022, which comprises of (a) the actual payment amount transferred by THTF to the Group from the first quarter to the third quarter of 2022; and (b) the expected payment amount to be transferred by THTF to the Group for the fourth quarter of 2022;

- (iv) *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, approximately 32.09%, 34.74% and 41.79% 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 from 2020 to 2022. As such, the payments to be transferred by the Group to THTF for the nine months ended 30 September 2022 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ending 31 December 2022. The annual caps for years ending 31 December 2023, 2024 and 2025 are calculated based on the payment amount transferred by the Group to THTF for the full year ending 31 December 2022, which comprises of (a) the actual payment amount transferred by the Group to THTF from the first quarter to the third quarter of 2022; and (b) the expected payment amount to be transferred by the Group to THTF for the fourth quarter of 2022;
- (v) *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 (iv) 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
- (vi) *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,

## LETTER FROM THE BOARD

taking into account industry trends and macro-economic factors, coupled with the Group's targeted growth rate. In particular, the Company notices increase in the amount of new contracts generally entered into in the nine months ended 30 September 2022, 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 2022 Business Arrangements Agreement, and will experience a decreasing trend in percentage terms relative to our Group's revenue.

### **Reasons for and Benefits of the 2022 Business Arrangements Agreement**

Under the 2022 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 2022 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 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

## LETTER FROM THE BOARD

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. For each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, 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 2020		For the year ended 31 December 2021		For the nine months ended 30 September 2022	
	<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	35	18.4%	27	13.9%	19	18.6%

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 BOARD

For each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, the number of new Nominee Projects entered into with existing customers, as compared to the total number of new projects entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses, are as follows:

	For the year ended 31 December 2020		For the year ended 31 December 2021		For the nine months ended 30 September 2022	
	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new projects</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new projects</i>	<i>New Nominee Projects with existing customers</i>	<i>Percentage of total new projects</i>
Number of projects	49	5.6%	43	5.3%	13	3.2%

*Note:* In 2021, multiple new contracts were entered into for a new Nominee Project and the Group is of the view that the above percentages are more meaningful reference.

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 projects entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses as a whole, the Group has also successfully developed 47 new projects 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 2022 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 2022 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.

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. Nevertheless, due to the shrinking markets and intensifying industry competition under the influence of the epidemic, some customers wish to continue to deal with THTF due to their history of dealings with THTF. Besides, given the relevant qualifications, licenses and projects performance in the past are still unavoidable bidding requirements for the Intelligent Rail Transit, Building and Urban Heating

## LETTER FROM THE BOARD

Network Businesses, the Group can avoid loss of potential business opportunities with the assistance from THTF by way of the arrangements under the 2022 Business Arrangements Agreement, while continuing to improve its own qualifications and build up the Group's presence and name. The Directors believe the arrangements under the 2022 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 projects entered into in the name of THTF. For each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, the number of new Nominee Projects, as compared to the total number of new projects entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, are as follows:

	<b>For the year ended 31 December 2020</b>		<b>For the year ended 31 December 2021</b>		<b>For the nine months ended 30 September 2022</b>	
	<i>Percentage of total</i>		<i>Percentage of total</i>		<i>Percentage of total</i>	
	<i>New number of Nominee Projects</i>	<i>new projects</i>	<i>New number of Nominee Projects</i>	<i>new projects</i>	<i>New number of Nominee Projects</i>	<i>new projects</i>
Number of projects	75	8.6%	58	7.2%	27	6.7%

*Note:* In 2021, multiple new contracts were entered into for a new Nominee Project and the Group is of the view that the above percentage are more meaningful reference.

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 projects 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 projects entered into in the name of 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. From the year ending 31 December 2022 onwards through the term of the 2022 Business Arrangements Agreement, the Company expects the percentage of revenue generated from Nominee Projects to continually decrease. The Directors undertook 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

## LETTER FROM THE BOARD

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. For the years ended 2020 and 2021, the revenue generated from contracts entered in the name of THTF accounted to 49.5% and 50.0%, respectively.

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 2022 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.

The Directors, including the independent non-executive Directors, are of the view that the 2022 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.

## LETTER FROM THE BOARD

### THE 2022 SALES AGREEMENT

The 2022 Sales Agreement was entered into on 27 December 2022 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2022 Sales Agreement of three years from 1 January 2023 to 31 December 2025.

A summary of the principal terms of the 2022 Sales Agreement is set out below:

- Date : 27 December 2022
- 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 2023 to 31 December 2025.
- 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.

## LETTER FROM THE BOARD

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

- (i) the prevailing market rate determined based on:
  - (a) the price of similar products used in 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.

## LETTER FROM THE BOARD

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.

## LETTER FROM THE BOARD

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 2023 to 31 December 2025

Annual caps : For the year ending 31 December 2023 – RMB420.0 million  
For the year ending 31 December 2024 – RMB460.0 million  
For the year ending 31 December 2025 – RMB510.0 million

### Historical Transaction Amounts

For the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022, the Group sold products and services under the 2019 Sales Agreement to Tongfang Group in the amount of approximately RMB245.5 million, RMB231.8 million and RMB130.2 million, respectively.

### Historical and Existing Annual Caps

The historical and existing annual caps under the 2019 Sales Agreement for the years ended 31 December 2020 and 2021 and the year ending 31 December 2022 amounted to RMB250.0 million, RMB300.0 million and RMB350.0 million, respectively.

## LETTER FROM THE BOARD

### Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2023, 2024 and 2025, 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 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 2022 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 2022;
- (ii) *Forecasted sales amount:* The forecasted sales amount is estimated to be approximately RMB384.8 million, RMB425.1 million and RMB469.8 million for each of the years ending 31 December 2023, 2024 and 2025, 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 2023, 2024 and 2025. In particular, the Group expects a considerable increase in sales to the Tongfang Group in relation to its energy saving and cooling business from 2022 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 35.8%, 10.5% and 10.5% for each of the years ending 31 December 2023, 2024 and 2025, 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 particular, in relation to the growth rate of approximately 35.8% estimated for the year ending 31 December 2023, the Company considered the fact that the Group had been actively expanding the energy storage market in the past years and successfully entered into a renewable energy storage project in 2022. Given the rapid growing trend of the energy storage industry, the Company expects that revenue derived from this market will record a substantial increase. In addition, it is expected the Company may cultivate the Group's experience accumulated over a number of years in system software and generate new revenue as its products come to commercialization. The Company also expects that after the construction and transportation industries experienced three years of the epidemic, project reserves will be released in 2023 and beyond, and this will further promote the Company's revenue growth through the Group's experience accumulated over a number of years in construction and transportation sectors;

## LETTER FROM THE BOARD

- (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; and
- (iv) *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 macroeconomic factors, coupled with the Group's targeted growth rate.

### **Reasons for and Benefits of the 2022 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 2022 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 2022 PURCHASE AGREEMENT**

The 2022 Purchase Agreement was entered into on 27 December 2022 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2022 Purchase Agreement of three years from 1 January 2023 to 31 December 2025.

A summary of the principal terms of the 2022 Purchase Agreement is set out below:

- Date : 27 December 2022
- Parties : (1) Technovator Beijing, a wholly-owned subsidiary of the Company
- (2) THTF, a controlling Shareholder

## LETTER FROM THE BOARD

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 2023 to 31 December 2025.

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

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

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

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

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

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.

## LETTER FROM THE BOARD

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 2022 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.

Terms	:	A term of three years from 1 January 2023 to 31 December 2025
Annual Caps	:	For the year ending 31 December 2023 – RMB220.0 million For the year ending 31 December 2024 – RMB250.0 million For the year ending 31 December 2025 – RMB270.0 million

### Historical Transaction Amounts

For the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022, the Group procured products and services under the 2019 Purchase Agreement from Tongfang Group in the amount of approximately RMB87.2 million, RMB86.6 million and RMB30.4 million, respectively.

### Historical and Existing Annual Caps

The historical and existing annual caps under the 2019 Purchase Agreement for the years ended 31 December 2020 and 2021 and the year ending 31 December 2022 amounted to RMB200.0 million, RMB250.0 million and RMB300.0 million, respectively.

### Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2023, 2024 and 2025, 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. Residual heat products related procurement is generally carried out in the last quarter of each year as heating related work has the highest demand

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during the winter months. As such, the amount of products and services procured by the Group for the nine months ended 30 September 2022 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 2022; and

- (ii) *Forecasted procurement amount:* The forecasted procurement amount is estimated to be approximately RMB209.3 million, RMB231.2 million and RMB255.5 million for each of the years ending 31 December 2023, 2024 and 2025, respectively. The forecasted procurement amount is estimated based on expected demand for products and services with references to historical amounts and expected business growth. In addition, the Group plans to procure large temperature difference units and steam heat pumps from a subsidiary of Tongfang Group, which costs are expected to amount to approximately RMB80 million for the year ending 31 December 2023 and increase by approximately 10% to 15% for each year thereafter. Such amounts are determined with reference to the expected increase in the Group's revenue and the historical amounts of such purchases from Tongfang Group.

### **Reasons for and Benefits of the 2022 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. Moreover, the cooperation in key business areas is conducive to protecting the intellectual property rights of the Group, and the industry experience of the supplier would help the Group to launch new products as soon as possible. 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 2022 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.

### **THE 2022 MASTER AGREEMENT**

The 2022 Master Agreement was entered into on 27 December 2022 between Technovator Beijing and THTF to commence a new term for the transactions contemplated under the 2022 Master Agreement of three years from 1 January 2023 to 31 December 2025.

A summary of the principal terms of the 2022 Master Agreement is set out below:

- Date : 27 December 2022
- Parties : (1) Technovator Beijing, a wholly-owned subsidiary of the Company
- (2) THTF, a controlling Shareholder

## LETTER FROM THE BOARD

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 2022 Master Agreement for a term of three years from 1 January 2023 to 31 December 2025.

Pursuant to the 2022 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 2022 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 2022 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.

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.

## LETTER FROM THE BOARD

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 use of trademark license services, the rate of royalty shall be determined based on the prevailing market level of royalty rates under similar trademark license agreements.

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
- (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.

## 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 2022 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.

## LETTER FROM THE BOARD

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.

## LETTER FROM THE BOARD

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 2023 to 31 December 2025

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

For the year ending 31 December 2023 – RMB20.0 million

For the year ending 31 December 2024 – RMB25.0 million

For the year ending 31 December 2025 – RMB30.0 million

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

For the year ending 31 December 2023 – RMB43.0 million

For the year ending 31 December 2024 – RMB48.0 million

For the year ending 31 December 2025 – RMB53.0 million

### Historical Transaction Amounts

For the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022, there was no provision of miscellaneous products and services by the Group to Tongfang Group.

For the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022, receipt of miscellaneous products and services by the Group from Tongfang Group amounted to approximately RMB28.9 million, RMB10.8 million and RMB14.6 million, respectively.

### Historical and Existing Annual Caps

The historical and existing annual caps under the 2019 Master Agreement for the years ended 31 December 2020 and 2021 and the year ending 31 December 2022 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 RMB50.0 million, RMB60.0 million and RMB70.0 million, respectively, for the receipt of miscellaneous products and services by the Group from Tongfang Group.

## LETTER FROM THE BOARD

### Basis of the Annual Caps

In arriving at the annual caps for the years ending 31 December 2023, 2024 and 2025, 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 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:* The Group plans to commence collaboration with Tongfang Group to provide technical support for the further development in the field of smart energy and carbon peaking and carbon neutrality based on the 14th Five-Year Plan of the PRC;
- (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
- (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, and miscellaneous services generated during the development of the Group, such as information security, personnel training, etc.

## LETTER FROM THE BOARD

### **Reasons for and Benefits of the 2022 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 2022 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 2022 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.

### **The Board's Assessment on Pricing Mechanism**

The miscellaneous products and services provided by Tongfang Group to the Group under the 2022 Master Agreement mainly include rental services. The leased offices are owned by Tongfang Group. There is neither a government-prescribed price nor a government-guidance price for rental services because the individual characteristics of the different leased properties has a great influence on the rental price. Instead, the rental price shall be determined with reference to the prevailing market price for the lease of similar type of properties, taking into account the differences in location, characteristics of properties, supply and demand relationship of the office lease and other factors. For details, please refer to the paragraph headed "Consideration and payment" under "The 2022 Master Agreement" section.

The miscellaneous products and services provided by the Group to Tongfang Group under the 2022 Master Agreement mainly include research and development services and products (including technology licensing). There is neither a government-prescribed price nor a government-guidance price for research and development services because research and development services vary greatly depending on the specific requirements formulated by the clients. Instead, the service fees shall be determined with reference to the prevailing market price for the research and development of similar type of facilities or equipment, taking into account the differences in the size, feature, functions of the relevant facilities and equipment and other factors. For details, please refer to the paragraph headed "Consideration and payment" under "The 2022 Master Agreement" section.

In respect of the use of trademark license services under the 2022 Master Agreement, there is neither a government-prescribed price nor a government-guidance price because the royalty rates vary depending on the type and usage of trademarks. Instead, the royalty rates shall be determined with reference to the prevailing market level of royalty rates under similar trademark license agreements. For details, please refer to the paragraph headed "Consideration and payment" under "The 2022 Master Agreement" section.

## LETTER FROM THE BOARD

In respect of the sharing of general and administration and management support services, there is neither a government-prescribed price nor a government-guidance price because such services are carried out based on the specific requirements formulated by the clients. The service fees agreed between the relevant parties shall be based on arm's length negotiation and shall be the reasonable costs incurred in providing such services plus reasonable profits.

Based on the above, the Board has made the assessment that due to the lack of government-prescribed price and government-guidance price, both parties shall follow the pricing mechanism as set out in the paragraph headed "Consideration and payment" under "The 2022 Master Agreement" section.

### **Implementation Agreement**

The 2022 Master Agreement is intended to set out the basic terms of the transactions to be covered under the 2022 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 2022 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 2022 Master Agreement. For rental services that will be provided by or to the Group under the 2022 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 2022 Master Agreement, they do not constitute new categories of connected transactions or continuing connected transactions under the Listing Rules.

### **INTERNAL CONTROLS**

The independent non-executive Directors and the auditors of the Company will review the transactions under each of the 2022 Agreements annually to ensure that the 2022 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 2022 Agreements against the approved Annual Caps.

## LETTER FROM THE BOARD

The Group has also adopted specific internal control and risk management measures for the transactions contemplated under each of the 2022 Agreements:

### **The 2022 Business Arrangements Agreement**

Pursuant to the 2022 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 2022 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 2022 Business Arrangements Agreement for the month. The operation departments will, after reviewing the projected transfer amounts, alert the finance department of the Group and provide it with a breakdown of the total projected transfer amounts. The finance department will decide whether to approve the relevant projected transfer amounts after comparing the projected transfer amounts against the amount of annual cap remaining for the year. Once the projected transfer amounts are approved, the operation department will closely monitor the actual transfer amounts against the approved projected transfer amounts, and will alert the finance department of the Group of any differences between the projected and actual transfer amounts. Where the actual transfer amounts will exceed the projected transfer amounts, prior approval from the finance department of the Group must be obtained before the transfer can be effected;

## LETTER FROM THE BOARD

- (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 2022 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.

## LETTER FROM THE BOARD

### The 2022 Sales Agreement

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2022 Sales Agreement. In addition to the internal control measures described in “Consideration and Payment” under the summary of the 2022 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 2022 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;

## LETTER FROM THE BOARD

- (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 2022 Purchase Agreement**

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2022 Purchase Agreement.

In addition to the internal control measures described in "Consideration and Payment" under the summary of the 2022 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 2022 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;

## LETTER FROM THE BOARD

- (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 2022 Master Agreement**

The Group has adopted internal control measures to monitor the pricing and terms of the transactions contemplated under the 2022 Master Agreement. In addition to the internal control measures described in “Consideration and Payment” under the summary of the 2022 Master Agreement in this letter, the Group has adopted the following internal control measures in relation to the 2022 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 2022 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 2022 Purchase Agreement” in this letter, report, approve and monitor the transactions accordingly; and

## LETTER FROM THE BOARD

- (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 compliance of the pricing terms under the 2022 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 2022 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 2022 Agreements and the transactions under the 2022 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 2022 Business Arrangements Agreement; (iii) the status of THTF as a controlling Shareholder; and (iv) the treatment by the Group of the transfers under the 2019 Business Arrangements Agreement in 2019, for the transfers contemplated under the 2022 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 2022 Agreements are greater than 5%, each of the 2022 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 2022 Agreements and the respective Annual Caps for the years ending 31 December 2023, 2024 and 2025.

## LETTER FROM THE BOARD

As the transactions under the 2022 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 2022 Master Agreement, the Company expects them to be classified as either short-term leases or leases of low-value assets, which will not be 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 TONGFANG 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.

## LETTER FROM THE BOARD

### 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. The Group is planning business expansion of energy-saving products under Intelligent Urban Heating Network Business, including software productization and development of energy storage products. In terms of software productization, the Group has the ability to develop products independently, including but not limited to metro monitoring products derived from ezISCS integrated monitoring software, line network command center products and station operation and maintenance products, which lays the foundation for the development of products sales business. In terms of business expansion of energy storage products, as a leading urban energy and intelligent energy-saving service provider in China, the Group, based on the algorithm library, software library, software and hardware production and research capabilities, supporting industrial layout, and technical service system accumulated through years of intensive efforts in energy-saving products, strives to give play to the innovative advantages of production, education, and research, and is building a safe energy storage solution that comprehensively serves the power production, transmission, distribution, and users. With years of success in the field of energy conservation, the Group has also established a good market reputation and industry influence, which can help the Group rapidly expand the market for the energy storage products. In general, the business expansion of energy-saving products could increase the revenue generated from business operated by the Group independently and, to some extent, reduce its business reliance on THTF. 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 2022 Business Arrangements Agreement — Reasons for and benefits of the 2022 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;

## LETTER FROM THE BOARD

- (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 undertook 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. For the years ended 2020 and 2021, the revenue generated from contracts entered in the name of THTF accounted to 49.5% and 50.0%, respectively. 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. In doing so, the Group adopted the following measures: (1) strengthening its sales capability in relation to the Company’s own technology products and encourage the use of the Company’s self-produced products in all types of projects; (2) formulating intelligent solution products with application in infrastructure such as rail transit and striving to build an industry-oriented software platform for the sales of intelligent solution products; (3) expanding its business in energy storage products by capturing opportunities from the PRC government’s initiatives in renewable energy and carbon peaking and carbon neutrality; (4) improving the profitability of engineering businesses through plans for the integration of informatization and industrialization (兩化融合方案). In addition, there had been changes in the tendering process for the building and transportation sectors, contracts for engineering, procurement, and construction (EPC) tender will be signed with central enterprises (中央企業) and given that the Company maintains good relationship with central enterprises, the Company expects that this may have a positive impact on the Company’s revenue generated directly from its customers. The Company confirms that when determining the basis of the annual caps under the 2022 Business arrangements Agreement, the Company already took into account such 30% target by considering the expected revenue of the Group for the years ended 31 December 2023, 31 December 2024 and 31 December 2025.

## LETTER FROM THE BOARD

### 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 2022 Business Arrangements Agreement — Reasons for and benefits of the 2022 Business Arrangements Agreement" in this letter, the Group has made considerable progress in decreasing the number of projects entered into through THTF. Through each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, 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 projects 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 2022 Business Arrangements Agreement — Reasons for and benefits of the 2022 Business Arrangements Agreement" in this letter for details on the number and proportion of Nominee Projects for the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022.

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 projects 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 although the percentage of revenue generated from Nominee Projects for the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022 remains stable, and the Company expects the percentage of revenue generated from the Nominee Projects will continue to decrease during the term of the 2022 Business Arrangements Agreement.

## LETTER FROM THE BOARD

The Directors undertook 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. For the years ended 2020 and 2021, the revenue generated from contracts entered in the name of THTF accounted to 49.5% and 50.0%, respectively. 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, the 2019 Business Arrangements Agreement and the 2022 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 2022 Business Arrangements Agreement — Reasons for and benefits of the 2022 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 2022 Sales Agreement and 2022 Purchase Agreement, based on the Company's estimated revenue, the proposed annual caps, are not expected to amount to more than 17% of the total revenue of the Group for any corresponding year. For each of the years ending 31 December 2023, 2024 and 2025, revenue generated by the Company from Tongfang Group through the 2022 Sales Agreement and the 2022 Master Agreement are not expected to amount to more than 17% and 1% of the total revenue of the Group, respectively, for any corresponding year.

*(iii) Ability to generate business independent of THTF*

As disclosed in "The 2022 Business Arrangements Agreement — Reasons for and benefits of the 2022 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 in relation to the number of new projects entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses as a whole.

## LETTER FROM THE BOARD

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 projects entered into through THTF. In particular, through the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, the Company has successfully entered into 47 new projects 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 102 to 104 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 2022 Agreements, the transactions contemplated thereunder and their respective proposed Annual Cap amounts in accordance with the requirements of the Listing Rules.

Although (i) Mr. Qin Xuzhong, Mr. Liang Wuquan, Mr. Zeng Xuejie and Mr. Zhang Jian, each being an employee of THTF, and (ii) Mr. Liang Wuquan is a director of Resuccess, none of them is involved in the decision making of the THTF that might be relevant to the continuing connected transactions between THTF and the Group. Therefore, the Board has made the assessment that none of the Directors has a material interest in the 2022 Agreements and therefore no Director has abstained from voting on the board resolutions of the Company to approve the 2022 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 2022 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 2022 Agreements, the transactions contemplated under the agreements and the related Annual Caps.

## LETTER FROM THE BOARD

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 2022 Agreements and are required to abstain from voting on the resolutions to approve the 2022 Agreements, the transactions contemplated under the agreements and the respective Annual Caps at the EGM.

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

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

### **INDEPENDENT BOARD COMMITTEE**

Pursuant to the Listing Rules, the Independent Board Committee has been formed by the Company to consider the 2022 Agreements, the transactions contemplated thereunder and their respective Annual Caps, and to advise the Independent Shareholders as to whether the 2022 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.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the 2022 Agreements.

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

Your attention is also drawn to the letter from Somerley Capital Limited as set out on pages 56 to 97 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2022 Agreements.

## LETTER FROM THE BOARD

### RECOMMENDATION

The Directors, including the independent non-executive Directors, after taking into account the advice from Somerley Capital Limited, consider that the transactions under the 2022 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 Xuzhong**  
*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)**

31 January 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**NEW 2022 AGREEMENTS IN RELATION TO CERTAIN  
CONTINUING CONNECTED TRANSACTIONS**

We refer to the 2022 Announcement and the circular dated 31 January 2023 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 2022 Agreements, details of which are set out in the Letter from the Board contained in the Circular.

Having considered the 2022 Agreements, and the advice and opinion of, and the factors and reasons considered by the Independent Financial Adviser in relation thereto as set out on pages 56 to 97 of the Circular, we are of the opinion that (i) the 2022 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 2022 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 2022 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 2022 Agreements (including the Annual Caps) and the transactions contemplated thereunder.

Your faithfully

Independent Board Committee

**Ms. Chen Hua**

**Mr. Chia Yew Boon**

**Mr. Fan Ren Da Anthony**

*Independent non-executive Directors*

\* For identification purpose only

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter of advice from Somerley Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

31 January 2023

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **THE 2022 AGREEMENTS IN RELATION TO CERTAIN CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the 2022 Agreements (including the 2022 Business Arrangements Agreement, the 2022 Sales Agreement, the 2022 Purchase Agreement, and the 2022 Master Agreement) details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 31 January 2023 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

As all of the 2019 Agreements (including the 2019 Business Arrangements Agreement, the 2019 Sales Agreement, the 2019 Purchase Agreement, and the 2019 Master Agreement) entered into between members of the Group and the Tongfang Group has expired on 31 December 2022, the relevant parties to each of the 2019 Agreements have agreed to continue with the arrangements under the relevant 2019 Agreement upon its expiry for a period of three years subject to similar terms and conditions by entering into the 2022 Agreements (including the 2022 Business Arrangements Agreement, the 2022 Sales Agreement, the 2022 Purchase Agreement, and the 2022 Master Agreement) and set the Annual Caps for each of the 2022 Agreements (the "**Business Arrangement Caps**", the "**Sales Caps**", the "**Purchase Caps**", and the "**Miscellaneous Caps**", respectively).

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. Accordingly, the 2022 Agreements and the transactions contemplated under the 2022 Agreements between the Group and Tongfang Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the transactions contemplated under the 2022 Business Arrangements Agreement, although no consideration will be paid by the Group to THTF in relation to such business arrangements, given that there will be payments between the Group and THTF and consistent with the treatment of the 2019 Business Arrangements Agreement, the Board considers it appropriate to subject such payments to the requirements for continuing connected transactions under Chapter 14A of the Listing Rules, and adopt the stated Business Arrangement 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 2022 Agreements are greater than 5%, each of the 2022 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.

An EGM will be convened to seek the approval of each of the 2022 Agreements and the Annual Caps by the Independent Shareholders. In view of THTF's interest in the 2022 Agreements, THTF and its associates will abstain from voting in respect of the relevant resolutions at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Chen Hua, Mr. Chia Yew Boon and Mr. Fan Ren Da Anthony, has been established to advise the Independent Shareholders in relation to the 2022 Agreements. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, THTF or their respective associates, close associates or core connected persons and, accordingly, are considered eligible to give independent advice on the 2022 Agreements. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, THTF or their respective core associates, close associates or core connected persons.

In formulating our advice and recommendation, we have reviewed, among others, (i) the 2022 Agreements (including the 2022 Business Arrangements Agreement, the 2022 Sales Agreement, the 2022 Purchase Agreement, and the 2022 Master Agreement), (ii) the 2019 Agreements (including the 2019 Business Arrangements Agreement, the 2019 Sales Agreement, the 2019 Purchase Agreement, and the 2019 Master Agreement), (iii) the published financial reports of the Company for the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022, and (iv) the Circular. In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the "**Management**") and the respective professional advisers of the Company and have assumed that they are true, accurate and complete in all material aspects and in relation to any opinions to be honestly held at the time they were made and will remain, in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held, up to the date of the EGM. We have also sought and received confirmation from the Group

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the 2022 Agreements and the Annual Caps, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group and the Tongfang Group

##### *The Group*

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.

##### *The Tongfang Group*

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.

## **2. The 2022 Business Arrangements Agreement**

### *2.1 Background of, reasons for and benefits of the 2022 Business Arrangements Agreement*

Following the completion of the acquisition of the Intelligent Rail Transit, Building and Urban Heating Network Businesses from THTF in October 2015, the Group entered into the 2017 Business Arrangements Agreement on 1 November 2017 and renewed such agreement by entering into the 2019 Business Arrangements Agreement on 24 October 2019 to facilitate the development of the acquired businesses and to integrate these businesses into the Group. Pursuant to the aforesaid agreements, (i) 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; and (ii) 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. As the 2019 Business Arrangements Agreement has expired on 31 December 2022, and the fact that it is not possible for the Company to determine a cutoff date for such transitional arrangements as the acquisition under the Business and Assets Purchase Agreements being an acquisition of an ongoing business and not an acquisition of corporate entity, the Group and the Tongfang Group entered into the 2022 Business Arrangements Agreement to continue such business arrangements.

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. Nevertheless, due to the shrinking markets and intensifying industry competition under the influence of the epidemic, some customers wish to continue to deal with THTF due to their history of dealings with THTF. Besides, given the relevant qualifications, licenses and projects performance in the past are still unavoidable bidding requirements for the Intelligent Rail Transit, Building and Urban Heating Network Businesses, the Group can

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

avoid loss of potential business opportunities with the assistance from THTF by way of the arrangements under the 2022 Business Arrangements Agreement, while continuing to improve its own qualifications and build up the Group's presence and name. The Directors believe the arrangements under the 2022 Business Arrangements Agreement continue to be an integral part of the operations of the Intelligent Rail Transit, Building and Urban Heating Network Businesses.

### *Number of customers and Nominee Projects*

For each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, (i) there were 35, 27 and 19 new customers of Nominee Projects (as defined in the Circular), representing approximately 18.4%, 13.9% and 18.6% of the total number of new customers of the Group, respectively; (ii) there were 49, 43 and 13 new Nominee Projects entered into with existing customers, representing approximately 5.6%, 5.3% and 3.2% of the total number of new projects entered into by the Intelligent Rail Transit, Building and Urban Heating Network Businesses, respectively; and (iii) there were 75, 58 and 27 new Nominee Projects, representing approximately 8.6%, 7.2% and 6.7% of the total number of new projects entered into by the Intelligent Rail Transit, Building and Urban heating Network Businesses, respectively. In addition, the Group has successfully developed 47 new projects directly with existing customers who have engaged THTF for services during the same period.

### *Revenue to the Group from THTF*

For the years ended 31 December 2020 and 2021, revenue generated from Nominee Projects amounted to approximately 49.5% and 50.0% for the total revenue of the Company for each period, respectively. As disclosed in the Letter from the Board, the Directors undertook 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. We noted that the Management intends to reduce such percentage gradually during the term of the 2022 Business Arrangements Agreement to not more than 30% by no later than 2025.

### *Payments by the Group to THTF*

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

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2022 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.

Having considered that (i) the renewal of the 2022 Business Arrangements Agreement is expected to facilitate the Company to retain existing clients and secure new potential clients; (ii) the Group has the right but not the obligations to require THTF to enter into contracts with customers to capture business opportunities which are otherwise less likely to be secured by the Group; (iii) the Group intends to reduce the revenue to the Group from THTF for Nominee Projects to not more than 30% of the total revenue of the Group by 2025; and (iv) the payments from the Group to THTF is for the reimbursement of payments to suppliers that THTF has procured for the Group in relation to the Nominee Projects and THTF will not be entitled to any additional fees or compensation, we consider the entering into of the 2022 Business Arrangements Agreement is in the interests of the Group and the Shareholders as a whole.

### *2.2 Principal terms of the 2022 Business Arrangements Agreement*

On 27 December 2022, the 2022 Business Arrangements Agreement was entered into 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 for a term of three years from 1 January 2023 to 31 December 2025.

As confirmed by the Directors and based on our review of the terms of each of the 2019 Business Arrangements Agreement and the 2022 Business Arrangements Agreement, save for the renewed term and the revision of the annual caps, the principal terms of the 2022 Business Arrangements

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Agreement are the same as compared to the principal terms of the 2019 Business Arrangements Agreement. Detailed terms of the 2022 Business Arrangements Agreement are set out in the Letter from the Board. The following sets forth a summary and our analysis of the principal terms of the 2022 Business Arrangements Agreement.

### *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;
- (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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

### *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 2022 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 and the Group 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 and the Group 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 recognize contracts (including any amendments thereto) the forms of which have been approved by the Group in writing as subject to the 2022 Business Arrangements Agreement.

As discussed with the Management, since the sales contracts and supply contracts are project-based, the scope of services and/or products supplied/purchased will not be identical to other previous projects of the Intelligent Rail Transit, Buildings and Urban Heating Network Business, it is unlikely to have many similar projects in a short period of time which can be taken as a reference of contract price. 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.

Considering (i) the prices for new sales contracts or supply will be negotiated directly between the Group and customers or suppliers who are Independent Third Parties; (ii) THTF 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 for the Nominee Projects under the 2022 Business Arrangements Agreement are the same with the pricing basis for other projects signed under the

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name of the Group, which are determined based on the Group's internal pricing policy; and (iv) the price range of at least two similar projects will be served as an indication of new contract price which will be subject to adjustment by the Group considering the nature of the new contracts as mentioned above, we consider the pricing basis under the 2022 Business Arrangements Agreement is fair and reasonable.

Having considered (i) THTF takes a passive role under the 2022 Business Arrangements Agreement; (ii) THTF will not be entitled to any additional fees or compensation for any transactions between the Group and THTF under the 2022 Business Arrangements Agreement; and (iii) certain internal control measures are in place for the Intelligent Rail Transit, Building and Urban Heating Network Businesses regarding the pricing and payment terms under the 2022 Business Arrangements Agreement (as mentioned in section headed "6. Internal Control Measures" below), we are of the opinion that the terms of the 2022 Business Arrangements Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### 2.3 *The Business Arrangement Caps*

#### *Historical transaction amount and existing annual caps*

The table below sets forth (i) the actual aggregate amount of payments transferred by THTF to the Group, and (ii) the payments transferred by the Group to THTF under the 2019 Business Arrangements Agreement for the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, and their respective existing annual caps and utilisation rates:

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Payments transferred by</b>			
<b>THTF to the Group:</b>			
Historical amounts	1,256.5	853.2	515.6 <sup>(Note)</sup>
Existing annual caps	1,600.0	1,600.0	1,600.0
<i>Utilisation rate</i>	78.5%	53.3%	43.0% <sup>(Note)</sup>
<b>Payments transferred by</b>			
<b>the Group to THTF:</b>			
Historical amounts	699.5	501.3	373.4 <sup>(Note)</sup>
Existing annual caps	1,300.0	1,300.0	1,300.0
<i>Utilisation rate</i>	53.8%	38.6%	38.3% <sup>(Note)</sup>

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*Note:* The transaction amounts for the year ended 31 December 2022 represented the transaction amounts for the nine months ended 30 September 2022 and, for illustration purpose, the utilisation rates were calculated based on pro-rated annual caps for the year, being approximately RMB1,200.0 million and approximately RMB975.0 million for payments transferred by THTF to the Group and payments transferred by the Group to THTF respectively.

### *The Business Arrangements Caps*

The table below sets out the Business Arrangements Caps for each of the years ending 31 December 2023, 2024 and 2025:

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>
Payments transferred by THTF to the Group	1,200.0	1,260.0	1,160.0
Payments transferred by the Group to THTF	980.0	1,030.0	950.0

As set out in the Letter from the Board, in arriving at the above Business Arrangements Caps, 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 (vi) below). The expected proportion of the Group's sales attributable to Nominee Projects is approximately 45.0%, 42.8% and 30.0% for the year ending 31 December 2023, 2024 and 2025, respectively, which is consistent with the target to reduce the percentage of revenue generated from Nominee Projects to not more than 30% of the total revenue of the Group by no later than 2025.

(ii) Business expansion of energy-saving products:

The Group is planning business expansion of energy-saving products under Intelligent Urban Heating Network Business, including software productization and development of energy

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storage products. In terms of software productization, the Group has the ability to develop products independently, including but not limited to metro monitoring products derived from ezISCS integrated monitoring software, line network command center products and station operation and maintenance products, which lays the foundation for the business expansion of energy-saving products. In terms of development of energy storage products, as a leading urban energy and intelligent energy-saving service provider in China, the Group, based on the algorithm library, software library, software and hardware production and research capabilities, supporting industrial layout, and technical service system accumulated through years of intensive efforts in energy-saving products, strives to give play to the innovative advantages of production, education, and research, and is building a safe energy storage solution that comprehensively serves the power production, transmission, distribution, and users. With years of success in the field of energy saving, the Group has established a good market reputation and industry influence, which can help the Group rapidly expand the market for the energy storage products. In general, the business expansion of energy-saving products could increase the revenue generated from business operated by the Group independently and, to some extent, reduce its business reliance on THTF.

- (iii) 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, approximately 34.50%, 33.90% and 34.53% of the payments from the customers are received in the last quarter of each year from 2020 to 2022. As such, the payments to be transferred by THTF to the Group for the nine months ended 30 September 2022 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ended 31 December 2022. The annual caps for years ending 31 December 2023, 2024 and 2025 are calculated based on the payment amount received by the Group from THTF for the full year ended 31 December 2022, which comprises of (a) the actual payment amount transferred by THTF to the Group from the first quarter to the third quarter of 2022; and (b) the expected payment amount to be transferred by THTF to the Group for the fourth quarter of 2022.

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- (iv) 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, approximately 32.09%, 34.74% and 41.79% 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 from 2020 to 2022. As such, the payments to be transferred by the Group to THTF for the nine months ended 30 September 2022 does not reflect the full extent of the payments to be transferred by THTF to the Group for the full year ended 31 December 2022. The annual caps for years ending 31 December 2023, 2024 and 2025 are calculated based on the payment amount transferred by the Group to THTF for the full year ended 31 December 2022, which comprises of (a) the actual payment amount transferred by the Group to THTF from the first quarter to the third quarter of 2022; and (b) the expected payment amount to be transferred by the Group to THTF for the fourth quarter of 2022.

- (v) 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 (iv) 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.

- (vi) 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

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growth rate. In particular, the Company notices increase in the amount of new contracts generally entered into in the nine months ended 30 September 2022, 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 2022 Business Arrangements Agreement, and will experience a decreasing trend in percentage terms relative to our Group's revenue.

### *Our assessment of the Business Arrangements Caps*

We have obtained and reviewed the underlying calculation provided by the Management in determining the Business Arrangements Caps. From our review, we noted that the proposed Business Arrangements Caps in relation to the payments to be transferred by THTF to the Group mainly represents the cash amounts to be received by the Group from THTF in relation to the Nominee Projects, whilst the proposed Business Arrangements Caps in relation to the payments to be transferred by the Group to THTF mainly represents the reimbursement by the Group for the payments to suppliers for the procurement of raw materials, products and services that THTF has procured for the Group in relation to the Nominee Projects.

### *Payments from THTF to the Group*

As noted from the underlying calculation provided by the Management in determining the Business Arrangements Caps, we noted that the payments from THTF to the Group under the 2022 Business Arrangements Caps were determined based on the estimated sales of the Intelligent Rail Transit, Building and Urban Heating Network Businesses of the Group during the three years ending 31 December 2025 and the expected proportion of such sales attributable to Nominee Projects. As disclosed in the Letter from the Board, the Directors undertook 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. We further noted that the Management intends to reduce such percentage gradually during the term of the 2022 Business Arrangements Agreement to not more than 30%. Based on the underlying calculation in determining the Business Arrangement Caps,

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the expected proportion of the Group's sales attributable to Nominee Projects is approximately 45.0%, 42.8% and 30.0% for the year ending 31 December 2023, 2024 and 2025, respectively. Such estimation is consistent with the aforesaid target gradual reduction to 30% by 2025. The Management then further estimated the payments to be transferred from THTF to the Group taking into account the expected payment schedule and patterns of the Nominee Projects.

We noted that the estimated sales amount of Intelligent Rail Transit Business, Intelligent Building Business and Intelligent Urban Heating Network Business, was assumed to have an annual growth rate of 8%, 10% and 10% during the three years ending 31 December 2025, respectively. In assessing the reasonableness of the assumed growth rates for each of the businesses, we have conducted research on relevant industries in China. According to the research reports of Qianzhan Industry Research Institute\* (前瞻產業研究院), (i) the market size of the intelligent urban rail transit in China recorded a year-on-year growth of approximately 8.8% and 11.3% in 2019 and 2020, respectively, and is expected to continue to grow at a compound annual growth rate of approximately 20% from 2021 to 2026<sup>1</sup>; and (ii) the market size of the intelligent parks in China recorded a year-on-year growth of approximately 7.5% and 8.9% in 2020 and 2021, respectively and is expected to continue to grow at a compound annual growth rate of approximately 12.7% from 2022 to 2025<sup>2</sup>. In respect of the Intelligent Urban Heating Network Business, according to the research report of Zhiyanzhan Industrial Research Institute\* (智研瞻產業研究院), the market size of the intelligent heating industry in China grew from approximately RMB4.9 billion in 2016 to approximately RMB19.0 billion in 2021, representing a compound annual growth rate of approximately 31.3%<sup>3</sup>. In addition, based on the database of the China Energy Storage Alliance (CNESA), the world's cumulative installed capacity of new energy storage reached approximately 25.4 gigawatt (GW) in 2021, representing a year-on-year increase of approximately 67.7%, whilst that in China amounted to approximately 5.72 GW in 2021, representing a year-on-year increase of approximately 74.5%. According to the "Guiding Opinions of the National Development and Reform Commission and the National Energy Administration on Accelerating the Development of New Energy Storage"《國家發展改革委國家能源局關於加快推動新型儲能發展的指導意見(徵求意見稿)》, it is planned that the installed capacity of new energy storage in China will reach 30GW in 2025, representing a compound annual growth rate of approximately 51.3% from 2021 to 2025.

<sup>1</sup> <https://www.qianzhan.com/analyst/detail/220/210610-f163b255.html>

<sup>2</sup> <https://bg.qianzhan.com/trends/detail/506/221117-fbd9f410.html>

<sup>3</sup> <https://www.zhiyanzhan.cn/analyst/977.html>

\* For identification purpose only

Payments from the Group to THTF

Based on our review of the underlying calculation provided by the Management in determining the Business Arrangements Caps, we noted that the payments to be made by the Group to THTF for the three years ending 31 December 2025 were estimated mainly based on the estimated gross profit margin of the Nominee Projects, which was in turn based on the historical average gross profit margin of the Nominee Projects in the three years ended 31 December 2021. As advised by the Management, the overall gross profit margin of the Intelligent Rail Transit, Building and Urban Heating Network Businesses is expected to remain at a similar level for the three years ending 31 December 2025.

The Group's business principally covers three segments, including Intelligent Rail Transit Business, Intelligent Building Business, Intelligent Urban Heating Network Business, while the Intelligent Rail Transit, Building and Urban Heating Network Businesses generate 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 overall gross profit margin. We have reviewed the annual reports of the Company for the years ended 31 December 2019, 2020 and 2021, and noted that the gross profit margins of the Group ranged from approximately 19.6% to 20.9% during the years from 2019 to 2021, which were generally stable.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the proposed Business Arrangements Caps are fair and reasonable.

Based on the above, we are of the view that the 2022 Business Arrangements Agreement (including the Business Arrangements Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

**3. The 2022 Sales Agreement**

***3.1 Background of, reasons for and benefits of the 2022 Sales Agreement***

Pursuant to the 2022 Sales Agreement, the Group 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.

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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.

As the sales of products and provision of services by the Group to Tongfang Group pursuant to the 2022 Sales Agreement (i) are in the ordinary course of business of the Group; (ii) are expected to generate revenue for the Group; and (iii) are on normal commercial terms (as discussed in the section headed "3.2 Principal terms of the 2022 Sales Agreement" below), we are of the opinion that the entering into of the 2022 Sales Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

### *3.2 Principal terms of the 2022 Sales Agreement*

On 27 December 2022, the 2022 Sales Agreement was entered into between subsidiary of the Company, namely, Technovator Beijing, and THTF, pursuant to which 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 2023 to 31 December 2025.

As confirmed by the Directors and based on our review of the terms of each of the 2019 Sales Agreement and the 2022 Sales Agreement, save for the renewed term and the revision of the annual caps, the principal terms of the 2022 Sales Agreement are the same as compared to the principal terms of the 2019 Sales Agreement. Detailed terms of the 2022 Sales Agreement are set out in the Letter from the Board. The following sets forth a summary and our analysis of the principal terms of the 2022 Sales Agreement.

#### *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 favourable 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, 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.

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.

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

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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 favourable to the Group than those offered by the Group to Independent Third Party customers for products of a similar type, scale and length of contracts.

As 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.

We have selected, on random basis, three sample sales contracts under the 2019 Sales Agreement and compared the terms to the terms of comparable sales contracts for products/services of similar nature. From our review, we noted that the principal terms of the sample sales contracts between the Group and the Tongfang Group are generally no less favourable to the Group than those comparable contracts for products/services of similar nature.

Based on the above, we are of the opinion that the principal terms of the 2022 Sales Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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### 3.3 *The Sales Caps*

#### *Historical transaction amount and existing annual caps*

The table below sets forth the sales amount of the products and services sold by the Group to the Tongfang Group during the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, and their respective existing annual caps and utilisation rates:

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical amounts	245.5	231.8	130.2 <sup>(Note)</sup>
Existing annual caps	250.0	300.0	350.0
Utilisation rate	98.2%	77.3%	49.6% <sup>(Note)</sup>

*Note:* The transaction amount for the year ended 31 December 2022 represented the transaction amount for the nine months ended 30 September 2022 and, for illustration purpose, the utilisation rate was calculated based on pro-rated annual cap for the year, being approximately RMB262.5 million.

#### *The Sales Caps*

The table below sets out the Sales Caps for each of the years ending 31 December 2023, 2024 and 2025:

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sales amount from the Group to the Tongfang Group	420.0	460.0	510.0

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As set out in the Letter from the Board, in arriving at the above Sales Caps for the years ending 31 December 2023, 2024 and 2025, 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 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 2022 does not reflect the full extent of the amount of products and services to be sold to Tongfang Group for the full year ended 31 December 2022.

(ii) Forecasted sales amount:

The forecasted sales amount is estimated to be approximately RMB384.8 million, RMB425.1 million and RMB469.8 million for each of the years ending 31 December 2023, 2024 and 2025, 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 2023, 2024 and 2025. In particular, the Group expects a considerable increase in sales to the Tongfang Group in relation to its energy saving and cooling business from 2022 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 35.8%, 10.5% and 10.5% for each of the years ending 31 December 2023, 2024 and 2025, 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 particular, in relation to the growth rate of approximately 35.8% estimated for the year ending 31 December 2023, the Company considered the fact that the Group had been actively expanding the energy storage market in the past years and successfully entered into a renewable energy storage project in 2022. Given the rapid growing trend of the energy storage industry, the Company expects that revenue derived from this market will record a substantial increase. In addition, it is expected the Company may cultivate the Group's experience accumulated over a number of years in system software and generate new revenue as its products come to

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commercialization. The Company also expects that after the construction and transportation industries experienced three years of the epidemic, project reserves will be released in 2023 and beyond, and this will further promote the Company's revenue growth through the Group's experience accumulated over a number of years in construction and transportation sectors.

(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.

(iv) 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 macroeconomic factors, coupled with the Group's targeted growth rate.

### *Our assessment of the Sales Caps*

From our review of the underlying calculation from the Management in determining the proposed Sales Caps, we noted that the Sales Caps was mainly determined with reference to the forecasted sales amount of the Group for the three years ending 31 December 2025, taking into account the historical transactions under the 2019 Sales Agreement and the expected gross profit margin of the Group for the three years ending 31 December 2025.

We have reviewed the annual reports of the Group for the years ended 31 December 2020 and 2021 and noted that the estimated sales under the 2022 Sales Agreement as a percentage of the estimated sales of the Group for the three years ending 31 December 2025, which was assumed to remain stable, is comparable to the historical sales amounts under the 2019 Sales Agreement as a percentage of the sales of the Group for the two years ended 31 December 2021. We have reviewed the underlying assumptions and basis of the estimated sales of the Group for the three years ending 31 December 2025 and are of the view that the same are fair and reasonable. Please refer to the section headed "*Our assessment of the Business Arrangements Caps*" above for the details of our analysis on the estimated sales.

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In relation to the expected gross profit margin, we have reviewed the annual report of the Company for the year ended 31 December 2021 and the interim report of the Company for the six months ended 30 June 2022, and noted that the gross profit margin of the Group was approximately 20.9%, 19.6% and 17.3% for 2020, 2021 and the six months ended 30 June 2022, respectively. As noted from the underlying calculation in determining the Annual Caps, it is expected that the gross profit margin of the Group would remain at a similar level for the three years ending 31 December 2025.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the proposed Sales Caps are fair and reasonable.

Based on the above, we are of the view that the 2022 Sales Agreement (including the Sales Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

#### **4. The 2022 Purchase Agreement**

##### ***4.1 Background of, reasons for and benefits of the 2022 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. Moreover, the cooperation in key business areas is conducive to protecting the intellectual property rights of the Group, and the industry experience of the supplier would help the Group to launch new products as soon as possible.

Given that (i) the 2022 Purchase Agreement does not restrict the Group from purchasing the products/services under the 2022 Purchase Agreement from other suppliers; (ii) the Group has been purchasing from Tongfang Group historically which Tongfang Group has proven to be a reliable supplier to the Group at competitive prices; (iii) the procurements of products and services by the Group from Tongfang Group are related to the projects to be undertaken by the Group which are principal businesses of the Group; and (iv) the terms of the 2022 Purchase Agreement are on normal commercial terms (as discussed in the section headed “4.2 Principal terms of the 2022 Purchase Agreement” below), we are of the opinion that the entering into of the 2022 Purchase Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

*4.2 Principal terms of the 2022 Purchase Agreement*

On 27 December 2022, the 2022 Purchase Agreement was entered into between Technovator Beijing, a wholly-owned subsidiary of the Company, and THTF, pursuant to which 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 2023 to 31 December 2025.

As confirmed by the Directors and based on our review of the terms of each of the 2019 Purchase Agreement and the 2022 Purchase Agreement, save for the renewed term and the revision of the annual caps, the principal terms of the 2022 Purchase Agreement are the same as compared to the principal terms of the 2019 Purchase Agreement. Detailed terms of the 2022 Purchase Agreement are set out in the Letter from the Board. The following sets forth a summary and our analysis of the principal terms of the 2022 Purchase Agreement.

*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:

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

- (i) 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

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limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and

- (ii) 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.

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.

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In any event, the payment terms should be no less favourable 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 2022 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.

We have selected, on random basis, three sample purchase contracts under the 2019 Purchase Agreement and compared the terms to the terms of comparable contracts/quotations for products/services of similar nature. From our review, we noted that the principal terms of the purchase contracts between the Group and the Tongfang Group are generally no less favourable to the Group than those comparable contracts/quotations for products/services of similar nature.

Based on the above, we are of the opinion that the principal terms of the 2022 Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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### 4.3 *The Purchase Caps*

#### *Historical transaction amount and existing annual caps*

The table below sets forth the procurement amounts of the Group from the Tongfang Group during the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, and their respective existing annual caps and utilisation rates:

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical amounts	87.2	86.6	30.4 <sup>(Note)</sup>
Existing annual caps	200.0	250.0	300.0
Utilisation rate	43.6%	34.6%	13.5% <sup>(Note)</sup>

*Note:* The transaction amount for the year ended 31 December 2022 represented the transaction amount for the nine months ended 30 September 2022 and, for illustration purpose, the utilisation rate was calculated based on pro-rated annual cap for the year, being approximately RMB225.0 million.

#### *The Purchase Caps*

The table below sets out the Purchase Caps for each of the years ending 31 December 2023, 2024 and 2025:

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Procurement amount of the Group from the Tongfang Group	220.0	250.0	270.0

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As set out in the Letter from the Board, in arriving at the above Purchase Caps for the years ending 31 December 2023, 2024 and 2025, 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. 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 2022 does not reflect the full extent of the amount of products and services to be procured by the Group for the full year ended 31 December 2022.

(ii) Forecasted procurement amount:

The forecasted procurement amount is estimated to be approximately RMB209.3 million, RMB231.2 million and RMB255.5 million for each of the years ending 31 December 2023, 2024 and 2025, respectively. The forecasted procurement amount is estimated based on expected demand for products and services with references to historical amounts and expected business growth. In addition, the Group plans to procure large temperature difference units and steam heat pumps from a subsidiary of Tongfang Group, which costs are expected to amount to approximately RMB80 million for the year ending 31 December 2023 and increase by approximately 10% to 15% for each year thereafter. Such amounts are determined with reference to the expected increase in the Group's revenue and the historical amounts of such purchases from Tongfang Group.

*Our assessment of the Purchase Caps*

From our review of the underlying calculation from the Management in determining the proposed Purchase Caps, we noted that the Purchase Caps was mainly determined with reference to the estimated cost of sales of the Group for the three years ending 31 December 2025, taking into account the historical transactions under the 2019 Purchase Agreement and the expected gross profit margin of the Group for the three years ending 31 December 2025.

We noted that the estimated purchase amounts under the 2022 Purchase Agreement as a percentage of the estimated cost of sales of the Group for the three years ending 31 December 2025, which was assumed

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to remain stable, was determined by the Management with reference to the percentages of the historical purchase amounts to the cost of sales of the Group for the three years ended 31 December 2021.

In relation to the expected gross profit margin, we have reviewed the annual report of the Company for the year ended 31 December 2021 and the interim report of the Company for the six months ended 30 June 2022, and noted that the gross profit margin of the Group was approximately 20.9% 19.6%, and 17.3% for 2020, 2021 and the six months ended 30 June 2022, respectively. As noted from the underlying calculation in determining the Annual Caps, it is expected that the gross profit margin of the Group would remain at a similar level for the three years ending 31 December 2025.

As the estimated cost of sales was determined based on the estimated sales and estimated gross profit margin, we have also reviewed the underlying assumptions and basis of the estimated sales of the Group for the three years ending 31 December 2025 and are of the view that the same are fair and reasonable. Please refer to the section headed "*Our assessment of the Business Arrangements Caps*" above for the details of our analysis on the estimated sales.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the proposed Purchase Caps are fair and reasonable.

Based on the above, we are of the view that the 2022 Purchase Agreement (including the Purchase Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### **5. The 2022 Master Agreement**

#### ***5.1 Background of, reasons for and benefits of the 2022 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 2022 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. The transactions contemplated under the 2022 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.

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As the transactions contemplated under the 2022 Master Agreement will facilitate certain miscellaneous sales and purchases between the Tongfang Group and the Group, and the 2022 Master Agreement are on normal commercial terms (as discussed in the section headed “5.2 *Principal terms of the 2022 Master Agreement*” below), we are of the opinion that the entering into of the 2022 Master Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

### *5.2 Principal terms of the 2022 Master Agreement*

On 27 December 2022, the 2022 Master Agreement was entered into between Technovator Beijing, a wholly-owned subsidiary of the Company, and THTF, in relation to the sales and purchase of miscellaneous products and services of the Group to and from the Tongfang Group for a term of three years from 1 January 2023 to 31 December 2025.

As confirmed by the Directors and based on our review of the terms of each of the 2019 Master Agreement and the 2022 Master Agreement, save for the renewed term and the revision of the annual caps, the principal terms of the 2022 Master Agreement are the same as compared to the principal terms of the 2019 Master Agreement. Detailed terms of the 2022 Master Agreement are set out in the Letter from the Board. The following sets forth a summary and our analysis of the principal terms of the 2022 Master Agreement.

#### *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 2022 Master Agreement for a term of three years from 1 January 2023 to 31 December 2025.

Pursuant to the 2022 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 2022 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 2022 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 favourable 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 use of trademark license services, the rate of royalty shall be determined based on the prevailing market level of royalty rates under similar trademark license agreements.

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.

We have discussed with the Management and were given to understand that the aforesaid government prescribed price and government-guidance price were not available for transactions under the 2019 Master Agreement. According to the Management, government prescribed price and government-guidance price may be implemented by the government from time to time, subject to government policies, the Company would adhere to such prices if applicable. 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 2022 Master Agreement. We have discussed with the Management and are given to understand that the transactions to be carried out under the 2022 Master Agreement are expected to be mainly rental services provided by Tongfang Group to the Group and research and development services and products (including technology licensing) provided by the Group to Tongfang Group. There is neither a government-prescribed price nor a government-guidance price for rental services because the individual characteristics of the different leased properties has a great influence on the rental price. Instead, the rental price shall be determined with reference to the prevailing market price for the lease of similar type of properties, taking into account the differences in location, characteristics of properties, supply and demand relationship of the office lease and other factors. There is neither a government-prescribed price nor a government-guidance price for research and development services because research and development services vary greatly depending on the specific requirements. Instead, the research and development service fees shall be determined with reference to the prevailing market price for the research and development of similar type of facilities or equipment, taking into account the differences in the size, feature, functions of the relevant facilities and equipment and other factors. For the remaining transactions such as the use of trademark license services and the sharing of general and administration and management support services, there is neither a government-prescribed price nor a government-guidance price as (i) the royalty rates for the use of trademark licence vary depending on the type and usage of trademarks, which shall be determined with reference to the prevailing market level of royalty rates under similar trademark license agreements; and (ii) the general and administration and management support services are carried out based on the specific requirements formulated by the clients, of which the service fees agreed

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between the relevant parties shall be based on arm's length negotiation and shall be the reasonable costs incurred in providing such services plus reasonable profits. As such, we concur with the Management's expectation that the government-prescribed prices and government-guidance prices will generally not be applicable to transactions under the 2022 Master Agreement. For transactions with neither a government-prescribed price nor a government-guidance price, we understand from the Management that 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 will be taken into consideration.

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 favourable 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.

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 ("**12-Month Purchase Period**") (if any), including but not limited to the most recent relevant transactions accepted by the Group and Independent Third Party suppliers; and

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- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the 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.

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.

We have obtained the breakdown of transaction amounts by nature of transactions under the 2019 Master Agreement, we noted that while there were no miscellaneous sales transactions made by the Group to the Tongfang Group, miscellaneous purchase transactions of the Group from the Tongfang Group amounted to approximately RMB28.9 million, RMB10.8 million and RMB14.6 million for the year ended 31 December 2020, 2021 and the nine months ended 30 September 2022, respectively, all of which was attributable to rental services or research and development services and products (including technology licensing) provided by Tongfang Group to the Group. As there were no miscellaneous sales transactions under the 2019 Master Agreement, we have selected, on random basis, two sample miscellaneous purchase contracts under the 2019 Master Agreement from each of the major transaction type, being rental services and the research and development services, and compared the terms to the terms of comparable contracts for products/services of similar nature, where

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available. From our review, we noted that the principal terms of the sample rental contracts between the Group and the Tongfang Group are generally no less favourable to the Group than those comparable contracts for products/services of similar nature. For the sample research and development contracts, as advised by the Management, due to the confidential nature of projects, the Group would avoid engaging Independent Third Party suppliers and the prices of such contracts were determined based on cost-plus basis with reference to market prices on cost components. As mentioned above, there is neither a government-prescribed price nor a government-guidance price for rental services or research and development services, we therefore have not referred to any government-prescribed prices and government-guidance prices when assessing the terms of the sample contracts. Given that the sample contracts covered each of the major transaction type of transactions under the 2019 Master Agreement, we consider the sample contracts are sufficient and representative.

Based on the above, we are of the opinion that the principal terms of the 2022 Master Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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### 5.3 *The Miscellaneous Caps*

#### *Historical transaction amount and existing annual caps*

The table below sets forth the transaction amounts between the Group and the Tongfang Group during the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 pursuant to the 2019 Master Agreement, and their respective existing annual caps and utilisation rates:

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<u>Provision of</u>			
<u>miscellaneous products</u>			
<u>and services by the</u>			
<u>Group</u>			
Historical amounts	Nil	Nil	Nil <sup>(Note)</sup>
Existing annual caps	30.0	40.0	50.0
<i>Utilisation rate</i>	<i>0%</i>	<i>0%</i>	<i>0%</i> <sup>(Note)</sup>
 <u>Receipt of miscellaneous</u>			
<u>products and services</u>			
<u>by the Group</u>			
Historical amounts	28.9	10.8	14.6 <sup>(Note)</sup>
Existing annual caps	50.0	60.0	70.0
<i>Utilisation rate</i>	<i>57.8%</i>	<i>18.0%</i>	<i>27.8%</i> <sup>(Note)</sup>

*Note:* The transaction amounts for the year ended 31 December 2022 represented the transaction amounts for the nine months ended 30 September 2022 and, for illustration purpose, the utilisation rates were calculated based on pro-rated annual caps for the year, being approximately RMB37.5 million and RMB52.5 million for provision of miscellaneous products and services by the Group and receipt of miscellaneous products and services by the Group respectively.

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### *The Miscellaneous Caps*

The table below sets out the Miscellaneous Caps for each of the years ending 31 December 2023, 2024 and 2025:

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>
Provision of miscellaneous products and services by the Group to Tongfang Group	20.0	25.0	30.0
Receipt of miscellaneous products and services by the Group from Tongfang Group	43.0	48.0	53.0

As set out in the Letter from the Board, in arriving at the above Miscellaneous Caps for the years ending 31 December 2023, 2024 and 2025, the Company has taken into account, among other things, 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 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.

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

The Group plans to commence collaboration with Tongfang Group to provide technical support for the further development in the field of smart energy and carbon peaking and carbon neutrality based on the 14th Five-Year Plan of the PRC.

(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:

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, and miscellaneous services generated during the development of the Group, such as information security, personnel training, etc.

### *Our assessment of the Miscellaneous Caps*

We have reviewed and discussed with the Management the underlying calculation provided by the Management in determining the Miscellaneous Caps. The following paragraphs sets forth our analysis on the proposed Miscellaneous Caps in relation to the sales transactions and purchased transactions of the Group to and from the Tongfang Group.

### Miscellaneous sales transactions of the Group to the Tongfang Group

As advised by the Management, the estimated sales amounts of the Group to the Tongfang Group pursuant to the 2022 Master Agreement was mainly determined based on the collaboration plan of the Group and the Tongfang Group to further develop in the field of smart energy and carbon peaking and carbon neutrality in view of the

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14th Five-Year Plan of the PRC. As advised by the Management, based on the Group's discussion with the Tongfang Group, the Tongfang Group is expected to increase its procurement of research and development services in the three years ending 31 December 2025.

Miscellaneous purchase/service transactions of the Group from the Tongfang Group

We noted that the estimated purchase/service amounts under the 2022 Master Agreement as a percentage of the estimated cost of sales of the Group for the three years ending 31 December 2025, which was assumed to remain stable, is within the range of the percentages of the historical purchase/service amounts under the 2019 Miscellaneous Agreement to the cost of sales of the Group for the three years ended 31 December 2021.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the proposed Purchase Caps are fair and reasonable.

Based on the above, we are of the view that the 2022 Master Agreement (including the Miscellaneous Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### **6. Internal Control Measures**

As advised by the Management, the Company has adopted a set of internal control measures since 2017 to assign specific responsibilities to various designated departments of the Company in performing regular assessment and cross-checking on the terms of the transactions contemplated under each of the 2017 Agreements in order to make sure that the transactions will be conducted in accordance with the terms of each of the 2017 Agreements. Such measures shall continue to be adopted to monitor the compliance of the pricing terms under the 2022 Agreements and ensure the Annual Caps approved by the Independent Shareholders will not be exceeded. Details of which are set out in the section headed "*Internal Controls*" 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.

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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. We have obtained and reviewed the aforesaid internal control policies and discussed with the Management with respect to the monitoring of the transactions under the 2022 Business Arrangements Agreement. 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 and the fact that the transactions under each of the 2022 Agreements are subject to the reporting requirements of the Listing Rules as set out in the section headed “7. Reporting Requirements by the Listing Rules” below, we concur with the view of the Directors that the internal control procedures provide sufficient and effective safeguard to ensure that the transactions under each of the 2022 Agreements are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable.

### **7. Reporting Requirements by the Listing Rules**

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under each of the 2022 Agreements are subject to the following annual review requirements:

- a) the independent non-executive Directors must review the transactions contemplated under each of the 2022 Agreements every year and confirm in the annual report and accounts that they have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- b) the Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the transactions under each of the 2022 Agreements:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions contemplated under each of the 2022 Agreements involve the provision of goods or services by the Group;
  - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing them; and
  - (iv) have exceeded the relevant annual caps;
- c) the Company must allow, and ensure that the counterparties to the 2022 Agreements allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the transactions contemplated under each of the 2022 Agreements; and
- d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

We have reviewed the annual reports of the Company for the years ended 31 December 2020 and 2021 and noted that the Company's auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions under the 2019 Agreements for the years ended 31 December 2020 and 2021 in accordance with Rule 14A.56 of the Listing Rules.

In light of the reporting requirements attached to the transactions contemplated under each of the 2022 Agreements, in particular, (i) the restriction of the transaction value by way of annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the 2022 Agreements and the annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under each of the 2022 Agreements and assist in safeguarding the interests of the Company and the independent Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the 2022 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 2022 Agreements and the transactions contemplated thereunder (including the respective Annual Caps) at the EGM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Calvin Leung**  
*Director*

*Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 18 years of experience in the corporate finance industry.*

## 1. RESPONSIBILITY STATEMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

## 2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

#### *Long positions in the Company*

<b>Name of Director</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares interested</b>	<b>Approximate percentage of interest in the issued share capital of the Company</b>
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 <sup>(1)</sup>	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.

Other than the fact that (i) Mr. Qin Xuzhong, Mr. Liang Wuquan, Mr. Zeng Xuejie and Mr. Zhang Jian, each being an employee of THTF, and (ii) Mr. Liang Wuquan is a director of Resuccess, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 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 2021, 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 2021, 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:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	a corporation licensed by the Securities and Futures Commission of Hong Kong to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital 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, Somerley Capital 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 2021, being the date to which the latest published audited accounts of the Company were made up.

**7. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website (<http://technovator.com.sg/>) for a period of 14 days from the date of this circular:

- (a) the 2022 Business Arrangements Agreement;
- (b) the 2022 Master Agreement;
- (c) the 2022 Purchase Agreement; and
- (d) the 2022 Sales Agreement.

# 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 Wednesday, 15 February 2023 at 10:00 a.m. at Level 17, Silvercord Tower 2, 30 Canton Road, Tsim Sha Tsui, 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 2022 Business Arrangements Agreement (as defined in the circular of the Company dated 27 December 2022 (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 2022 Business Arrangements Agreement, the annual caps and the transactions contemplated thereunder.”

(2) “**THAT**

- (a) the 2022 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 2022 Purchase Agreement, the annual caps and the transactions contemplated thereunder.”

(3) “**THAT**

- (a) the 2022 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 2022 Sales Agreement, the annual caps and the transactions contemplated thereunder.”

(4) “**THAT**

- (a) the 2022 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 2022 Master Agreement, the annual caps and the transactions contemplated thereunder.”

By Order of the Board  
**Technovator International Limited**  
**Qin Xuzhong**  
*Chairman*

Hong Kong, 31 January 2023

## NOTICE OF EXTRAORDINARY GENERAL MEETING

*Principal place of business in Hong Kong:*

Level 17  
Silvercord Tower 2  
30 Canton Road  
Tsim Sha Tsui  
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. Liang Wuquan, Mr. Zeng Xuejie and Mr. Zhang Jian; and the independent non-executive directors of the Company are Ms. Chen Hua, Mr. Chia Yew Boon and Mr. Fan Ren Da Anthony.*

*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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 14 February 2023.
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.