Technovator

Technovator International Limited

(incorporated in Singapore with limited liability)

Stock Code: 1206

INTERIM REPORT 2012

ENERGY SAVING

Products & Solutions Provider

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Zhao Xiaobo (趙曉波)
Mr. Seah Han Leong (謝漢良)

Non-executive Directors
Mr. Lu Zhicheng (陸致成) *(Chairman)*
Mr. Chow Dah-Jen (周大任)
(appointed with effect from 28 August 2012)
Dr. Li Jisheng (李吉生)
Mr. Liu Tianmin (劉天民)
Mr. Ng Koon Siong (黃坤商)
Ms. Shi Shanshan (施珊珊)
(resigned with effect from 28 August 2012)

Independent Non-executive Directors
Mr. Fan Ren Da Anthony (范仁達)
Mr. Chia Yew Boon (謝有文)
Ms. Chen Hua (陳華)

BOARD COMMITTEES

Audit Committee
Ms. Chen Hua *(Chairman)*
Mr. Chia Yew Boon
Mr. Fan Ren Da Anthony

Nomination Committee
Mr. Chia Yew Boon *(Chairman)*
Mr. Fan Ren Da Anthony
Mr. Lu Zhicheng

Remuneration Committee
Mr. Fan Ren Da Anthony *(Chairman)*
Mr. Chia Yew Boon
Mr. Ng Koon Siong

JOINT COMPANY SECRETARIES

Mr. Leung Lok Wai
Ms. Tan Siew Hua

AUTHORISED REPRESENTATIVES

Mr. Zhao Xiaobo
Mr. Seah Han Leong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

43rd Floor, Gloucester Tower
The Landmark, 15 Queen's Road Central
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

KPMG

SINGAPORE PRINCIPAL SHARE REGISTRAR

Tricor Evatthouse Corporate Services
80 Robinson Road
#02-00
Singapore 068898

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

COMPANY WEBSITE

www.technovator.com.sg

PRINCIPAL BANKERS

Standard Chartered Bank (Singapore)
Bank of China (Beijing Zhongguancun Science and Technology Park sub-branch)
Bank of Beijing (Tsinghua Park sub-branch)
China CITIC Bank (Beijing Tsinghua Park sub-branch)
China Construction Bank (Huairou sub-branch)
Agriculture Bank of China (reception branch office, Huairou sub-branch)
China CITIC Bank (Shanghai Gubei sub-branch)
The Hongkong and Shanghai Banking Corporation Limited (Canada)
The Hongkong and Shanghai Banking Corporation Limited (France)
Rabobank PEEL NOORD (Netherlands)

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations (China) Limited

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Management Discussion and Analysis

OVERVIEW

The business environment during the six months ended 30 June 2012 (the "period") was not easy due to certain adverse macro economic factors which impacted the global economy. During the period, the China's economic growth momentum has gradually slowed down, the United States economic recovery has remained fragile and the European sovereign debt crisis has worsen. In spite of these adverse factors, Technovator International Limited ("Technovator" or the "Company") still achieved stable growth during the period by strengthening sales and distribution network, intensifying marketing and business development efforts and continuing its brand enhancement initiatives. As a result, the revenue and net profit of the Company and its subsidiaries (the "Group") attributable to equity shareholders increased by approximately 23.0% and 31.7% respectively for the six months ended 30 June 2012 compared with six months ended 30 June 2011.

On-going development of sales and distribution network has always been one of the key growth components for Technovator. During the period, we focused on strengthening the development and management of sales and distribution network for both the People's Republic of China (the "PRC") and overseas markets. With continuous investment with regards to marketing and business development, our competitiveness in these markets has strengthened among our peers.

Over the years, we have globalized our research and development capabilities and have collaborated with universities and research institutions so that our research and development team could closely monitor the development of the global technology trend. In conjunction with the continuous efforts in our brand establishment and promotion initiatives, we have enhanced our brand and product recognition which laid a solid foundation for long-term sustainable growth.

With our efforts above together with our effective tailor-made building energy management products and solutions services, we have gained trust from various municipal governments, sizable enterprises and maintained our close relationships with them as well as created more business opportunities and enlarged our customer base.

For the PRC market, the business environment is full of challenges and provides opportunities at the same time. In view of the slow down of its economic growth, the ongoing re-adjustment of its macro economy and the keen competition in its industries, the business environment is challenging. However, the building energy saving management is still a topic of interest as awareness of energy efficiency in the application of building energy saving solutions is increasing and the respective market in PRC is rapidly growing as a result of numerous governments' energy policies and speedy urbanization of second and third tier cities. Nevertheless, we have proven that we are capable of grasping opportunities in this challenging market by investing in product and technology, tailoring our solutions and services to help customers to understand and take control of their energy usage and riding on our continuous efforts in sales and distribution channel expansion, research and development as well as brand recognition and promotion initiatives.

In our major overseas markets, namely the North American market and the European market, retrofitting old buildings is a key to have more efficient energy consumption in developed countries. We have demonstrated the importance of providing a high quality and responsive service for our customers, although customers' budgets are tighter, while at the same time operating as efficiently as possible. In addition, we have boarded and deepen the sales and distribution network in our overseas markets complementing the brand promotion there. As a result of our continuous sales and marketing efforts, recognition from more consumers has been received. The business in overseas markets performed well, despite the impact of the uncertain economic environment in these markets.

In building energy saving solutions business, including integrated building automation systems and energy management systems, we continued to provide high level of customer service and committed to remain competitive by controlling costs. During the period, we have prepared for a difficult period. We have proactively implemented our measures in sales and marketing to capture more business. The first emphasis was to further expand the PRC market and broaden our domestic customer base. In addition, we have dedicated to strengthen sales and marketing in the United States in order to focus more on larger-sized contracts, develop and commercialize our energy saving solutions for customers with multiple branches.

FINANCIAL REVIEW – CONTINUING OPERATIONS

Revenue

Our total revenue increased by approximately US$9.2 million from approximately US$40.1 million for the six months ended 30 June 2011 to approximately US$49.3 million for the six months ended 30 June 2012. The increase was mainly due to our continuous efforts in increasing our brand recognition, implementing intensive marketing and business development strategies, and developing strong and in-depth sales channel in our building energy saving solutions business (which includes two of our major product segments namely integrated building automation systems and energy management systems). In aggregate, revenue generated from our building energy saving solutions business increased by approximately US$8.7 million from approximately US$36.2 million for the six months ended 30 June 2011 to approximately US$44.9 million for the six months ended 30 June 2012.

Revenue by business segments

The table below sets out our revenue by business segment for the periods indicated.

	For the six months ended 30 June 2011 Revenue (US$'000)	2011 % of revenue	2012 Revenue (US$'000)	2012 % of revenue	2012 vs. 2011
Building energy saving solution:					
Integrated building automation systems	31,279	78.1%	**36,775**	**74.6%**	17.6%
Energy management systems	4,918	12.3%	**8,090**	**16.4%**	64.5%
Others:					
Control security systems	3,701	9.2%	**4,325**	**8.8%**	16.9%
Fire alarm systems	164	0.4%	**99**	**0.2%**	(39.6%)
Total	40,062	100.0%	**49,289**	**100.0%**	23.0%

Integrated building automation systems

Revenue from integrated building automation systems increased by approximately US$5.5 million from approximately US$31.3 million for the six months ended 30 June 2011 to US$36.8 million for the six months ended 30 June 2012 which was contributed by both our PRC and overseas markets. For the PRC market, we recorded revenue from integrated building automation systems of approximately US$13.9 million for the six months ended 30 June 2012, representing an increase of 9.4% over the same period in 2011. For the overseas markets, we recorded revenue from integrated building automation systems of approximately US$22.9 million for the six months ended 30 June 2012, representing an increase of 23.1% over the same period in 2011.

The increase was primarily due to (i) the increasing global awareness of energy efficiency products for buildings, (ii) the increasing recognition of our brands and our product's quality, (iii) the continuing efforts in implementing marketing and business development strategies in China in order to gain a larger market share, and (iv) the strengthening our sales and marketing strategies in overseas markets in order to focus more on larger-sized contracts, developing and commercializing our energy-saving products and solutions for customers with multiple branches.

Energy management systems
Revenue from energy management systems increased by approximately US$3.2 million from approximately US$4.9 million for the six months ended 30 June 2011 to approximately US$8.1 million for the six months ended 30 June 2012. The increase was primarily due to (i) the increasing awareness of building energy management solution, (ii) the increasing recognition of our brands and our product's quality, (iii) our continuing investment in research and development to enhance the competitiveness of our energy management system, and (iv) the increasing recognition of our products in terms of energy saving effectiveness.

Control security systems and fire alarm systems
Control security systems and fire alarm systems are two non-core old business segments which revenue in aggregate represented 9.0% of the Company's revenue and slightly increased approximately by US$0.6 million for the six months ended 30 June 2012.

Revenue by Geographical Region

The table below sets out our revenue by geographical region for the periods indicated.

	For the six months ended 30 June				2012 vs.
	2011		2012		2011
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
The PRC	21,440	53.5%	**26,409**	**53.6%**	23.2%
North America	10,412	26.0%	**14,142**	**28.7%**	35.8%
The rest of the world	8,210	20.5%	**8,738**	**17.7%**	6.4%
Total	40,062	100.0%	**49,289**	**100.0%**	23.0%

Revenue from the PRC market increased by approximately US$5.0 million to approximately US$26.4 million for the six months ended 30 June 2012 from approximately US$21.4 million for the six months ended 30 June 2011. This increase was mainly attributable to the increasing awareness of building energy efficiency and the respective market in the PRC is rapidly growing as a result of numerous governments' policies and speedy urbanization of its second and third tier cities together with our strong and in-depth sales and distribution networks, intensive marketing and business development strategies and strong brand recognition among our peers.

Revenue from North American market (including Canada and United States) increased by approximately US$3.7 million to approximately US$14.1 million for the six months ended 30 June 2012 from approximately US$10.4 million for the six months ended 30 June 2011. The increase was mainly attributable to our strengthening sales and distribution network in our overseas markets and our achievement in focusing on larger-sized contracts, develop and commercialize our energy saving products and solutions for customers with multiple branches.

Apart from the above major region, as a result of our continuous efforts in expanding the building energy saving business, revenue generated from the rest of the world had also slightly increased by approximately US$0.5 million to approximately US$8.7 million for the six months ended 30 June 2012 as compared with the same period in 2011.

Cost of sales
Cost of sales increased by approximately 22.9%, or approximately US$5.5 million, from approximately US$24.0 million for the six months ended 30 June 2011 to approximately US$29.5 million for the six months ended 30 June 2012. The increase was primarily due to the increase in cost of raw materials from approximately US$22.7 million for the six months ended 30 June 2011 to approximately US$27.8 million for the six months ended 30 June 2012, mainly as a result of an overall increase in sales for the period. The remaining increase in cost of sales was primarily due to the increase in manufacturing staff cost.

Gross profit

As a result of the foregoing factors, gross profit increased by approximately US$3.7 million from approximately US$16.1 million for the six months ended 30 June 2011 to approximately US$19.8 million for the six months ended 30 June 2012. Gross profit margin remained steady at about approximately 40.1% for the six months ended 30 June 2011 and the six months ended 30 June 2012.

Other revenue

Other revenue for the six months ended 30 June 2012 decreased by approximately US$0.1 million from approximately US$0.2 million for the six months ended 30 June 2011. The decrease was primarily due to the one-off government subsidy received in the six months ended 30 June 2011.

Other net (loss)/gain

Other net (loss)/gain increased by approximately US$0.2 million from approximately US$0.14 million loss for the six months ended 30 June 2011 to approximately US$0.06 million in gains for the six months ended 30 June 2012. The increase was primarily due to an approximately US$0.18 million increase in foreign exchange gain and an approximately US$0.02 million decrease in net loss on disposal of fixed assets during the period.

Selling and distribution costs

Selling and distribution costs increased by approximately US$0.3 million, from approximately US$4.4 million for the six months ended 30 June 2011 to approximately US$4.7 million for the six months ended 30 June 2012. The increase was primarily due to the increase of staff costs associated with the expansion of our sales and marketing sales force and the increase of business development expenses associated with additional advertising efforts and related exhibition and marketing costs, which was partially offset by our efforts on the improvement of cost efficiency among the sales and marketing forces.

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately US$1.2 million, from approximately US$5.0 million for the six months ended 30 June 2011 to approximately US$6.2 million for the six months ended 30 June 2012. The increase was primarily due to an increase of expenses incurred for professional bodies, senior management and directors, and administrative staffs for ongoing compliance related expenses after the shares of the Company have successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2011.

Research and development expenses

Research and development expenses increased from approximately US$1.3 million for the six months ended 30 June 2011 to approximately US$1.5 million for the six months ended 30 June 2012, mainly due to our continuous efforts in research and development activities.

Finance costs

Finance costs decreased by approximately 39.5%, from approximately US$0.38 million for the six months ended 30 June 2011 to approximately US$0.23 million for the six months ended 30 June 2012. The decrease was primarily due to the average loans and borrowings balance during the six months ended 30 June 2012 was lower than that during the same period in the previous year as a result of the Group gradually repayment of debts.

Income tax

Income tax increased from approximately US$1.0 million for the six months ended 30 June 2011 to US$1.6 million for the six months ended 30 June 2012. The increase was mainly due to an increase in the Group's profit before taxation. The effective tax rate was slightly increased from 20.5% for the six months ended 30 June 2011 to 21.8% for the six months ended 30 June 2012.

Profit for the period

As a result of the foregoing factors, profit attributable to equity holders for the period increased by approximately 31.7% from approximately US$3.6 million for the six months ended 30 June 2011 to approximately US$4.8 million for the six months ended 30 June 2012. Net profit margin increased from approximately 10.0% for the six months ended 30 June 2011 to 11.6% for the six months ended 30 June 2012.

Working capital and financial resources

The following table sets forth the Group's current assets and liabilities as of the dates indicated:

	As at	
	31 December 2011 (US$'000)	**30 June 2012 (US$'000)**
Inventories	14,807	**13,731**
Trade and bills receivables	26,243	**32,819**
Trade payables	18,968	**19,285**
Inventories turnover days	75	**87**
Trade and bills receivables turnover days	85	**108**
Trade payables turnover days	98	**117**

Inventories decreased from approximately US$14.8 million as at 31 December 2011 to approximately US$13.7 million as at 30 June 2012, which was primarily due to our proactive approach to maintain a low level of inventory.

Average inventory turnover days increased from approximately 75 days for the twelve months ended 31 December 2011 to 87 days for the six months ended 30 June 2012. The increase of inventory turnover days was due to a higher average inventory balance during the current six months period ended despite a lower ending inventory balance.

Trade and bills receivables amounted to approximately US$26.2 million and approximately US$32.8 million as at 31 December 2011 and 30 June 2012, respectively. Such increase in trade and bills receivables was mainly due to the increase in the revenue of the Group as a result of our global expansion.

Average trade receivable turnover days were approximately 85 days and 108 days for the year ended 31 December 2011 and six months ended 30 June 2012, respectively. The relatively higher trade receivable turnover days was primarily resulted from longer credit periods given to certain long-term customers in order to maintain close business relationships under the uncertain macro economic environment. Therefore, the average trade and other receivable turnover days were relatively higher as compared to the full year of 2011.

Trade payables slightly increased from approximately US$19.0 million as at 31 December 2011 to approximately US$19.3 million as at 30 June 2012 resulting primarily from our business growth.

The Group's average trade payable turnover days was approximately 98 days and 117 days for the year ended 31 December 2011 and six months ended 30 June 2012 respectively. The increase in trade payable turnover days was primarily attributable to a higher average accounts payable balance during the current six months period ended, and our capability to negotiate for longer credit periods, in particular, to cope with the longer credit periods provided to our customers and the increased volume of our business. Therefore, the average trade and other payable turnover days were relatively higher as compared to the full year of 2011.

Liquidity and financial resources

We maintained a healthy liquidity position during the first half of 2012. We have principally financed our operations by internal resources. As at 30 June 2012, we had approximately US$20.8 million in cash and cash equivalents. Our cash and cash equivalents consist primarily of cash in the banks and on hand and deposits that are readily convertible into known amounts of cash.

As at 30 June 2012, our indebtedness consisted of short-term loans of approximately US$6.0 million with an average annual interest rate of 5.4%, long-term loan of approximately US$2.1 million with an average annual interest rate of 4.3% and obligations under finance lease of approximately US$0.2 million. The short-term loans mainly represented an unsecured term loan of US$1.2 million from Bank of China, an unsecured term loan of approximately US$1.6 million from CMBC, a term loan of approximately US$2.2 million and secured bank overdraft of approximately US$1.0 million from banks overseas.

Our debts were primarily denominated in Renminbi ("RMB"), Canadian dollar ("CAD") and Euro ("EUR"). Cash and cash equivalents were primarily denominated in RMB, CAD, EUR and U.S. dollars.

Gearing ratio as at 30 June 2012, defined as loans and borrowings divided by total assets, is 7.1% (as at 31 December 2011: 6.4%).

We are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions related. The currencies giving rise to this risk are primarily Euros, United States dollars and Hong Kong dollars. We had not used any financial instruments for hedging purposes during the period under review. Nevertheless, our management will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when conditions are so required.

Pledge of assets

As at 30 June 2012, certain of our interest-bearing bank borrowings were pledged by the Group's assets. The Group's pledged assets increased from approximately US$9.2 million as at 31 December 2011 to approximately US$12.3 million as at 30 June 2012 resulting primarily from the requirement of the bank.

Contractual obligation and capital commitments

The following table sets forth our non-cancellable operating lease commitments as at 31 December 2011 and 30 June 2012. Our operating lease commitments relate primarily to our leases of office spaces, workspaces and machineries.

	31 December 2011 (US$'000)	**30 June 2012 (US$'000)**
Within one year	965	**992**
After one year but within five years	1,714	**1,428**
Total	2,679	**2,420**

We had no capital commitments contracted for, and authorized but not contracted for, but not provided in the financial statements as at 30 June 2012.

Contingent liabilities

As at 30 June 2012, we did not have any material contingent liabilities.

Off-balance sheet arrangements

We do not have any special purpose entities that provide financing, liquidity, market risk or credit support to us or engage in leasing, hedging or research and development services with us. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our financial statements. Moreover, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that services as credit, liquidity or market risk support to such entity.

Employment, Training and Development

As at 30 June 2012, we had a total of 394 employees, an increase of 16.6% compared to 338 employees as at 30 June 2011. Total staff costs for the six months ended 30 June 2012 increased to approximately US$8.3 million from approximately US$6.6 million for the six months ended 30 June 2011, mainly due to employee and salary increments.

As a matter of policy, our employees are remunerated based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis.

We provides training to our employees on a regular basis to keep them abreast of their knowledge in our products, technology developments and market conditions of our industry. We also provide additional training for each new product launch so as to facilitate our frontline sales staff's sales and orientation efforts. In addition, our senior management also participates in conferences and exhibitions to deepen their knowledge in the industry.

Use of proceeds from the global offering

The Company's shares were listed on the Main Board of the Stock Exchange on 27 October 2011 with a total of 122,000,000 offer shares. The net proceeds raised from the offering was approximately HK$74.6 million (equivalent to approximately US$9.6 million) (the "Net Proceeds"). We intend to utilize the net proceeds from the offering in accordance with the proposed applications set out in the section headed "Use of Proceeds" in the prospectus of the Company dated 7 October 2011. As at the date of this report, approximately US$1.0 million has been used as general working capital. In addition, we are also gradually using approximately US$2.0 million to further strengthen the research and development capabilities and sales and marketing forces. We have deposited the unused Net Proceeds with licensed banks in Hong Kong and Singapore, and are ready for use to pursue purchase opportunities, strategic alliances as well as mergers and acquisitions targets.

Merger and Acquisition

For the six months ended 30 June 2012, no acquisition or disposal of subsidiaries or associates was made by us.

Significant investment

For the six months ended 30 June 2012, we had no significant investment.

PROSPECTS

Buildings are becoming smarter and more environmental-friendly through the deployment of intelligent and energy efficient technologies that reduce energy consumption while making buildings easier and more cost efficient to manage and operate. Therefore, we believe the demand for building energy saving products and solutions are steadily growing as the value proposition for energy efficiency is proven again and again.

These trends are apparent worldwide. Spending on building energy saving products and solutions are steadily growing. According to a report prepared by Pike Research, the building energy management market will double over the next decade, therefore, the potential demand for building energy saving products and solutions deployments from these increases will create additional opportunities.

As one of the leading providers of building energy saving products and solutions in China with global footprint around the world, we plan to further capitalize on these strengths for future development by implementing the following business development strategies:

Strengthen and expand our global sales and distribution network

Our hard work and significant investments over the past few years have created a well-established market position. We will continue to invest resources in our sales and distribution network in order to strengthen our global reach.

Strong and in-depth distribution network is a key element of our growth. We will continue to maintain our sales and marketing team to be equipped with the requisite knowledge, expertise and experience in their sectors and market locations.

Pursue strategic acquisition and alliance opportunities

Currently and going forward, we are continuously and actively pursuing, evaluating and negotiating strategic acquisition and alliance opportunities. We plan to supplement our organic growth initiatives with strategic acquisitions and alliances of complementary product areas, sales and production capability as well as technological expertise.

We are pursuing strategic acquisition and alliance opportunities which would bring long-term value to the Group by, including but not limit to, expanding our product portfolio, strengthening our sales and distribution networks and expanding our geographic reach.

Continuous research and development to product and solutions portfolio

Currently, we have three research and development centers located in China, Canada and France. During the period, we have invested US$2.4 million which represented 4.9% of its revenue in our research and development forces.

We will further enhance the cooperativeness among our three research and development centers in planning and implementing our short-term and long-term research and development pipelines so as to further strengthen our technical expertise and our product competitiveness in our global market.

We will continue to collaborate with universities and other research institutions to enhance and develop more product and technology.

Enhance its brand recognition and market position globally

We believe that brand recognition and reputation are instrumental to Technovator's success and growth and will continue to devote in brand building and marketing.

We will further enhance the recognition of our brands "Techcon" for the PRC market and "Distech Controls" for overseas markets by providing exceptional product quality and service reliability to our customers. Meanwhile, we will continue to focus on reinforcing and expanding our sales channels, and will enhance our market position by promoting our innovative, advanced and cost flexibility in building energy saving products and solutions.

Promote building energy saving concept

As one of the key players in the building energy management industry, we will continue to actively promote building energy saving concept, by participating industry academic forums, industry development committees and industry associations, so as to capitalize business opportunities and sustain business growth.

Throughout these activities, we will be able to keep abreast of market conditions and upcoming industry policies but also highlight the environmentally-friendly features and benefits of our building energy saving products and solutions.

Looking ahead, the global economy is still fragile with uncertainties in the United States and the European government debts situation remained unresolved. The Chinese Government continues to implement fiscal and monetary policies to slow down inflation as well as the economy growth momentum. However, as mentioned aforesaid, the building energy management is still a topic of interest as the awareness of building energy efficiency is increasing and the respective market is expected to be steadily growing in the future. We are confident in the outlook of the building energy management industry. Under these circumstances, we will continue to implement and enhance the above business strategies together with close monitoring cost control in order to migrate the challenges and capitalize the business opportunities. We are determined to create fruitful returns for shareholders and investors.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions contained in the code of corporate governance practice ("Old Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effective since its adoption by the Company from 8 September 2011 until 20 March 2012. The Company has complied with the code provisions contained in the Old Corporate Governance Code since 1 January 2012 until 20 March 2012.

For the purpose of complying with the new corporate governance code as set out in the Appendix 14 of the Listing Rules, which took effect from 1 April 2012, the Board has adopted a revised Old Corporate Governance Code ("New Corporate Governance Code") on 21 March 2012. The Company has complied with the code provisions contained in the corporate governance code as set out in Appendix 14 to the Listing Rules since 21 March 2012 until 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has also adopted the Model Code as set out in Appendix 10 of the Listing Rules throughout the six months ended 30 June 2012 as its code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry with all of the Directors, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2012.

Corporate Governance and Other Information

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited consolidated interim financial statements for the six months ended 30 June 2012.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

DIVIDENDS

The board of Directors has not recommended the payment of any interim dividend for the six months ended 30 June 2012.

DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 June 2012, 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 Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in the Company

Name of Director	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Seah Han Leong	Interest in a controlled corporation[(1)]	36,000,000	7.42%
	Interest in a controlled corporation[(2)]	8,000,000	1.65%
	Beneficial owner	4,000,000	0.83%
	Beneficial owner	12,120,000[(3)]	2.32%[(4)]
Mr. Zhao Xiaobo	Beneficial owner	12,120,000[(3)]	2.32%[(4)]

Notes:

(1) Mr. Seah Han Leong owns 50% of the issued share capital of Diamond Standard Ltd and hence is deemed to be interested in all the shares of the Company (the "Shares") held by Diamond Standard Ltd.

(2) Mr. Seah Han Leong is the sole shareholder of M2M Holdings Ltd and hence is deemed to be interested in all the Shares held by M2M Holdings Ltd.

(3) Shares subject to exercise of options under the Technovator Employee Share Option Scheme 2009. These Shares were issued by the Company upon the exercise of shares options by the grantees pursuant to the Technovator Employee Share Option Scheme 2009 on 20 July 2012. For further details, please refer to the paragraph headed "SHARE OPTION SCHEMES – Pre-IPO Share Option Schemes – (i) Technovator Employee Share Option Scheme 2009" below.

(4) 2.32% is calculated based on the number of issued Shares taking into account Shares which may be allotted and issued to all grantees upon their after full exercise of the options under the Technovator Employee Share Option Scheme 2009.

Save as disclosed above, as at 30 June 2012, 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 30 June 2012, the persons or corporations (other than the Directors 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 Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Tsinghua Tongfang Co., Ltd (同方股份有限公司)	Beneficial owner Interest in a controlled corporation[1]	92,000,000 80,000,000	18.96% 16.49%
Resuccess Investments Limited	Beneficial owner	80,000,000	16.49%
Dragon Point Limited	Beneficial owner	108,436,320	22.35%
Zana China Fund L.P.	Interest in a controlled corporation[2]	108,436,320	22.35%

Notes:

(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.

(2) Zana China Fund L.P. is the sole shareholder of Dragon Point Limited and hence is deemed to be interested in all the Shares held by Dragon Point Limited.

Save as disclosed above, as at 30 June 2012, 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 Division 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.

SHARE OPTION SCHEMES

Pre-IPO Share Option Schemes

Prior to the listing of the Company, the Group has adopted the following share option schemes (collectively, "Pre-IPO Share Option Schemes") to enable our employees to build up a stake in the Group:

(i) Technovator Employee Share Option Scheme 2009; and

(ii) Distech Controls Stock Option Plan.

(i) Technovator Employee Share Option Scheme 2009

The Technovator Employee Share Option Scheme 2009 was approved by resolutions of the shareholders of the Company passed at an extraordinary general meeting of the Company on 11 August 2009 and amended by the resolution of the committee administering the scheme on 15 August 2011.

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to our long term growth and profitability. Options to subscribe for an aggregate of 36,320,000 Shares were granted to five employees including two executive Directors and three other employees of the Group on 12 August 2009.

An option may be exercised in accordance with the terms of the Technovator Employee Share Option Scheme 2009 during the period commencing after the date of grant and expiring on the third anniversary of such date of grant, subject to termination under the Technovator Employee Share Option Scheme 2009. The vesting period to exercise one-third of the total options granted under the Technovator Employee Share Option Scheme 2009 will be 18 months and the rest of the two-third will be 24 months after the grant. Subject to any adjustment pursuant to the Technovator Employee Share Option Scheme 2009, the exercise price per option is HK$0.69523 as amended on 15 August 2011.

No options granted under the Technovator Employee Share Option Scheme 2009 were exercised, lapsed or cancelled during the six months ended 30 June 2012.

On 20 July 2012, a total of 36,320,000 Shares were issued by the Company upon the exercise of shares options by all the grantees pursuant to the Technovator Employee Share Option Scheme 2009. The closing price per Share immediately before 5 July 2012 (the date on which share options were exercised) was HK$1.16. Details of the movement of share options granted the Technovator Employee Share Option Scheme 2009 are as follows:

	Number of shares issuable/issued under the share options			
Name	Outstanding as at 1 January 2012	Outstanding as at 30 June 2012	Issued upon exercise of shares options during the period from 1 July 2012 to the date hereof	Outstanding as at the date hereof
Director				
Zhao Xiaobo	12,120,000	12,120,000	12,120,000	0
Director and substantial shareholder				
Seah Han Leong	12,120,000	12,120,000	12,120,000	0
Other Employees				
Xu Zhenxi	4,000,000	4,000,000	4,000,000	0
Chen Fangju	4,040,000	4,040,000	4,040,000	0
Qiu Duanyun	4,040,000	4,040,000	4,040,000	0
Total	**36,320,000**	**36,320,000**	**36,320,000**	**0**

(ii) Distech Controls Stock Option Plan

The Distech Controls Stock Option Plan was approved by resolutions of the board of directors of Distech Controls on 28 May 2008.

Options to subscribe to an aggregate of 1,770,000 class B common shares of Distech Controls ("Class B Common Shares"), representing approximately 4.58% of the total number of issued shares of the Distech Controls (being 38,670,669 shares), at an exercise price of CAD$0.60 have been conditionally granted to 28 participants by Distech Controls under the Distech Controls Stock Option Plan. All the options under the Distech Controls Stock Option Plan were granted on 27 August 2008, 8 September 2009, 10 March 2010, 19 January 2011 and 19 July 2011, and no further options will be granted under the Distech Controls Stock Option Plan after the listing of the Company.

Unless otherwise decided at the time of the grant, during the period between one year from the date of grant and the termination date of the Distech Controls Stock Option Plan, 25% of the options granted under the Distech Controls Stock Option Plan may be exercised; and the one thirty-sixth of the remainder of the options granted will become exercisable each month thereafter until the termination date of the Distech Controls Stock Option Plan. The exercise price per option is determined by the board of directors of Distech Controls when the options are granted.

Save as disclosed above, no options granted under Distech Controls Stock Option Plan were exercised, lapsed or cancelled during the six months ended 30 June 2012.

Details of the movement of share options granted the Distech Controls Stock Option Plan are as follows:

Name	Number of shares issuable under the share options	
	Outstanding as at 1 January 2012	Outstanding as at 30 June 2012
Employees	1,770,000	1,770,000
Total	1,770,000	1,770,000

Share Option Scheme

As terms of the Pre-IPO Share Option Schemes do not comply with the provisions in Chapter 17 of the Listing Rules, no further options may be granted after the listing of the Company. As such, the shareholders of the Company have approved and the Company has adopted a new share option scheme ("Share Option Scheme") on 18 May 2012 to grant options to eligible persons in addition to the Pre-IPO Share Option Schemes.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at 18 May 2012, being the date of adoption of the Share Option Scheme by the shareholders of the Company (the "Adoption Date"), i.e. 48,520,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's shares in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(b) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date, after which no further options will be granted or offered.

During the six months ended 30 June 2012, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

On 23 July 2012, the Company granted share options under the Share Option Scheme. Details of such share options granted under the Share Option Scheme as at the date hereof are as follows:

Name	Date of Grant[(1)]	Exercise price per Share	Exercise period[(2)]	Number of shares issuable under the share options: Outstanding as at 18 May 2012 (adoption date)	Outstanding as at 30 June 2012	Outstanding as at the date hereof
Director, chief executive or substantial shareholder						
Lu Zhicheng	23 July 2012	HK$1.15	23 July 2014–22 July 2017	–	–	4,800,000
Zhao Xiao bo	23 July 2012	HK$1.15	23 July 2014–22 July 2017	–	–	4,800,000
Seah Han Leong	23 July 2012	HK$1.15	23 July 2014–22 July 2017	–	–	4,800,000
Leung Lok Wai	23 July 2012	HK$1.15	23 July 2014–22 July 2017	–	–	3,000,000
Other Employees						
In aggregate	23 July 2012	HK$1.15	23 July 2014–22 July 2017	–	–	31,100,000
Total				–	–	48,500,000

Notes:

(1) The closing price per Share immediately before 23 July 2012 (the date on which share options were granted) was HK$1.15.

(2) Share options granted under the Share Option Scheme on 23 July 2012 ("Date of Grant") shall have an Option Period (as defined in the Share Option Scheme) of 5 years from the Date of Grant and vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the Options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of options to vest	Vesting condition
Any time after the second anniversary of the Date of Grant	50% of the total number of options granted	The vesting of the options shall be conditional upon the Company meeting its profit target for the year 2012
Any time after the third anniversary of the Date of Grant	50% of the total number of options granted	The vesting of the options shall be conditional upon the Company meeting its profit target for the year 2013

BOARD OF DIRECTORS

Ms. Shi Shanshan has resigned from her position as a non-executive director of the Company with effect from 28 August 2012. Mr. Chow Dah-Jen has been appointed as a non-executive director of the Company with effect from 28 August 2012 to fill the casual vacancy. Pursuant to articles of association of the Company, Mr. Chow Dah-Jen shall hold office until the next general meeting of the Company, and shall then be eligible for re-appointment.

CHANGES IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Director of the Company subsequent to the date of the 2011 annual report are set out below:

Mr. Seah Han Leong, an executive Director of the Company, was admitted as ordinary member of the Singapore Institute of Directors on 18 April 2012.

Save for the information disclosed above, there is no other information related to Mr. Seah Han Leong and all other Directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Independent Review Report

Independent review report
to the board of directors of Technovator International Limited
(Incorporated in Singapore with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 21 to 36, which comprises the consolidated balance sheet of Technovator International Limited as of 30 June 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 August 2012

Consolidated Income Statement

For the six months ended 30 June 2012 – unaudited
(Expressed in United States dollars)

	Note	Six months ended 30 June 2012 '000	2011 '000
Revenue	3, 4	**49,289**	40,062
Cost of sales		**(29,535)**	(23,991)
Gross profit		**19,754**	16,071
Other revenue		**100**	177
Other net gain/(loss)		**61**	(139)
Selling and distribution costs		**(4,715)**	(4,398)
Administrative and other operating expenses		**(6,225)**	(4,975)
Research and development expenses		**(1,465)**	(1,346)
Profit from operations		**7,510**	5,390
Finance costs	5(a)	**(231)**	(381)
Profit before taxation		**7,279**	5,009
Income tax	6	**(1,586)**	(1,025)
Profit for the period		**5,693**	3,984
Attributable to:			
Equity shareholders of the Company		**4,785**	3,632
Non-controlling interests		**908**	352
Profit for the period		**5,693**	3,984
Earnings per share	7		
Basic (US$)		**0.010**	0.010
Diluted (US$)		**0.010**	0.010

The accompanying notes form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 – unaudited
(Expressed in United States dollars)

	Six months ended 30 June	
	2012	2011
	'000	'000
Profit for the period	**5,693**	3,984
Other comprehensive income for the period		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	**(755)**	2,039
Total comprehensive income for the period	**4,938**	6,023
Attributable to:		
Equity shareholders of the Company	**4,053**	4,997
Non-controlling interests	**885**	1,026
Total comprehensive income for the period	**4,938**	6,023

The accompanying notes form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2012 – unaudited
(Expressed in United States dollars)

	Note	At 30 June 2012 '000	At 31 December 2011 '000
Non-current assets			
Property, plant and equipment	8	**4,596**	3,431
Intangible assets		**14,689**	14,125
Goodwill		**15,548**	15,914
Deferred tax assets		**304**	287
		35,137	33,757
Current assets			
Inventories		**13,731**	14,807
Trade and other receivables	9	**43,577**	31,136
Gross amounts due from customers for contract work		**254**	508
Cash and cash equivalents	10	**20,791**	27,940
		78,353	74,391
Current liabilities			
Trade and other payables	11	**26,182**	26,562
Gross amounts due to customers for contract work		**354**	357
Loans and borrowings		**5,956**	3,591
Obligations under finance leases		**30**	60
Income tax payable		**1,007**	1,064
		33,529	31,634
Net current assets		**44,824**	42,757
Total assets less current liabilities		**79,961**	76,514

The accompanying notes form part of this interim financial report.

Consolidated Balance Sheet (Continued)

At 30 June 2012 – unaudited
(Expressed in United States dollars)

	Note	At 30 June 2012 '000	At 31 December 2011 '000
Non-current liabilities			
Loans and borrowings		**2,134**	3,382
Obligations under finance leases		**185**	27
Deferred income		**–**	87
Deferred tax liabilities		**1,931**	2,290
		4,250	5,786
NET ASSETS		**75,711**	70,728
CAPITAL AND RESERVES			
Share capital	12	**33,786**	33,786
Reserves		**35,325**	31,227
Total equity attributable to equity shareholders of the Company		**69,111**	65,013
Non-controlling interests		**6,600**	5,715
TOTAL EQUITY		**75,711**	70,728

Approved and authorised for issue by the board of directors on 28 August 2012

Zhao Xiaobo	)
	) Directors
Seah Han Leong	)

The accompanying notes form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 – unaudited
(Expressed in United States dollars)

	Note	Attributable to equity shareholders of the Company								
		Share capital '000	Statutory reserves '000	Translation reserve '000	Share-based compensation reserve '000	Capital reserve arising from changes in ownership interests in subsidiaries '000	Retained profits '000	Total '000	Non-controlling interests '000	Total equity '000
Balance at 1 January 2011		24,228	1,449	906	980	4,739	11,634	43,936	4,423	48,359
Changes in equity for the six months ended 30 June 2011:										
Profit for the period		–	–	–	–	–	3,632	3,632	352	3,984
Other comprehensive income		–	–	1,365	–	–	–	1,365	674	2,039
Total comprehensive income for the period		–	–	1,365	–	–	3,632	4,997	1,026	6,023
Equity settled share-based transactions		–	–	–	153	–	–	153	–	153
Balance at 30 June 2011		24,228	1,449	2,271	1,133	4,739	15,266	49,086	5,449	54,535
Balance at 1 January 2012		33,786	2,524	1,640	1,320	4,739	21,004	65,013	5,715	70,728
Changes in equity for the six months ended 30 June 2012:										
Profit for the period		–	–	–	–	–	4,785	4,785	908	5,693
Other comprehensive income		–	–	(732)	–	–	–	(732)	(23)	(755)
Total comprehensive income for the period		–	–	(732)	–	–	4,785	4,053	885	4,938
Equity settled share-based transactions		–	–	–	45	–	–	45	–	45
Balance at 30 June 2012		33,786	2,524	908	1,365	4,739	25,789	69,111	6,600	75,711

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 – unaudited
(Expressed in United States dollars)

		Six months ended 30 June	
		2012	2011
	Note	**'000**	'000
Cash used in operations		**(2,455)**	(1,166)
Income tax refund		**–**	25
Income tax paid		**(1,986)**	(1,036)
Net cash used in operating activities		**(4,441)**	(2,177)
Net cash used in investing activities		**(3,789)**	(1,673)
Net cash generated from/(used in) financing activities		**1,117**	(1,163)
Net decrease in cash and cash equivalents		**(7,113)**	(5,013)
Cash and cash equivalents at 1 January	10	**27,940**	15,243
Effect of foreign exchange rates changes		**(36)**	236
Cash and cash equivalents at 30 June		**20,791**	10,466

The accompanying notes form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in United States dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of Technovator International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 28 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 20.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors expressed an unqualified opinion on those financial statements in their report dated 21 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets* is relevant to the Group's financial statements.

Amendments to HKFRS 7 Financial instruments: disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments. This development has had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are the manufacture and distribution of building automation and management products, construction of building automation system and provision of related design, consulting and after sales warranty services.

Revenue represents the sales value of goods sold to customers, income from provision of services and revenue from construction contracts. The amounts of each significant category of revenue recognised during for the six months ended 30 June 2011 and 2012 are as follows:

	Six months ended 30 June	
	2012	2011
	'000	'000
Sales of goods	**41,486**	35,446
Provision of services	**5,156**	2,485
Contract revenue	**2,647**	2,131
	49,289	40,062

4 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following seven reportable segments. No operating segments have been aggregated to form the following reportable segments.

Building Automation Systems ("BAS") (PRC/North America/Europe/Other countries): This is a control and management system that provides intelligent control over various electrical systems in buildings, including air-conditioning, lighting, elevators, ventilation systems, water supply and discharge systems and power supply systems. The Group's BAS business is segregated further into four operating segments on a geographical basis. All four operating segments primarily derive their revenue from the sales of BAS products. The products are generally a combination of items sourced externally and manufactured in the Group's manufacturing facilities.

Control security systems ("CSS"): This segment sells video surveillance products and develops security access systems in the PRC.

Fire alarm systems ("FAS"): This segment sells FAS products as well as design and manage fire prevention and fighting systems in different types of premises in the PRC.

Energy management systems ("EMS"): This segment provides advanced EMS through integrating its self-developed range of software as part of its total solution and services offered to customers and the hardware platform from running its software in the PRC.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in United States dollars unless otherwise indicated)

4 SEGMENT REPORTING (CONTINUED)

(a) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment results is profit or loss before income tax adjusted for items not specifically attributed to individual segments, such as interest income and interest expenses. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment sales). Inter-segment pricing is determined on a consistent basis using market benchmarks.

Segment assets and liabilities are not regularly reported to the Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the consolidated financial statements.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2012 and 2011 is set out below:

	BAS – PRC		BAS – North America		BAS – Europe		BAS – Other countries		CSS – PRC		FAS – PRC		EMS – PRC		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	'000	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000
Revenue from external customers	**13,895**	12,657	**14,142**	10,412	**5,678**	6,927	**3,060**	1,283	**4,325**	3,701	**99**	164	**8,090**	4,918	**49,289**	40,062
Inter-segment revenue	**3,670**	2,364	**75**	177	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,745**	2,541
Reportable segment revenue	**17,565**	15,021	**14,217**	10,589	**5,678**	6,927	**3,060**	1,283	**4,325**	3,701	**99**	164	**8,090**	4,918	**53,034**	42,603
Reportable segment profit/(loss)	**2,751**	2,485	**2,768**	2,548	**1,102**	731	**594**	(378)	**(36)**	51	**(212)**	9	**2,944**	2,535	**9,911**	7,981

4 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment revenues and profit or loss

	Six months ended 30 June	
	2012	2011
	'000	'000
Revenue		
Reportable segment revenue	**53,034**	42,603
Elimination of inter-segment revenue	**(3,745)**	(2,541)
Consolidated revenue	**49,289**	40,062
Profit		
Reportable segment profit	**9,911**	7,981
Elimination of inter-segment profits	**(64)**	(284)
Reportable segment profit derived from Group's external customers	**9,847**	7,697
Depreciation and amortisation	**(1,890)**	(1,812)
Finance costs	**(231)**	(381)
Unallocated head office and corporate expenses	**(447)**	(495)
Consolidated profit before taxation	**7,279**	5,009

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	Six months ended 30 June	
	2012	2011
	'000	'000
Revenue derived from:		
PRC	**26,409**	21,440
United States	**11,972**	8,922
France	**3,198**	4,244
Canada	**2,170**	1,490
Switzerland	**937**	935
The Netherlands	**333**	576
Other countries	**4,270**	2,455
	49,289	40,062

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in United States dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2012	2011
	'000	'000
Interest on loans and borrowings	**229**	369
Other financial costs	**2**	12
	231	381

(b) Other items

	Six months ended 30 June	
	2012	2011
	'000	'000
Amortisation of intangible assets	**1,449**	1,468
Depreciation	**441**	344
Interest income	**(22)**	(54)

6 INCOME TAX

Income tax in the consolidated income statements represents:

	Six months ended 30 June	
	2012	2011
	'000	'000
Current tax	**1,943**	1,124
Deferred tax	**(357)**	(99)
	1,586	1,025

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in United States dollars unless otherwise indicated)

6 INCOME TAX (CONTINUED)

Notes:

(i) The Company is subject to Singapore corporate income tax at 17% for the six months ended 30 June 2012 (six months ended 30 June 2011: 17%). No provision for Singapore income tax was made because the Company sustained tax losses for the period.

(ii) Tongfang Technovator Int (Beijing) Co., Ltd. (同方泰德國際科技(北京)有限公司) ("Technovator Beijing") and Tongfang Technovator Intelligence Technology (Shanghai) Co., Ltd. (同方泰德智能科技(上海)有限公司) ("Technovator Shanghai") are subject to PRC corporate income tax. The PRC's statutory income tax rate is 25%.

Distech Controls Inc. ("Distech Controls") and e2 Solutions Inc. are subject to Canadian corporate income tax at 28.4% for the six months ended 30 June 2012 (six months ended 30 June 2011: 28.4%). Corporate income tax comprises of federal and provincial taxes which also apply to investment income earned by general corporations other than capital gains and dividends received from Canadian corporations. The rate that applies to capital gains is half of the Canadian corporate income tax rate.

Distech Europe is subject to the Netherlands corporate income tax at progressive rates ranging from 20% to 25.5% for the six months ended 30 June 2012 (six months ended 30 June 2011: progressive rates ranging from 20% to 25.5%), depending on the amount of taxable income.

Distech Controls LLC ("Distech U.S.") is a single member limited liability company and was structured as a disregarded entity for United States Federal, state and local income tax purpose. Accordingly, no provision for United States corporate income tax was made for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). Distech U.S. was incorporated in the United States on 17 February 2010.

(iii) Distech Controls S.A.S. (formerly known as Société Comtec Technologies S.A.S.) ("Comtec"), Acelia S.A.S. ("Acelia") and Distech France Holding S.A.S. ("Distech France") are subject to French corporate income tax at rate of 33.33% for the six months ended 30 June 2012 (six months ended 30 June 2011: 33.33%). Distech France, Comtec and Acelia formed a tax-consolidated group under the French tax law effective from 1 January 2011, whereby the tax-consolidated group is taxed as a single entity headed by Distech France. Tax losses brought forward that were incurred before the formation can only be utilised by the individual entities that incurred the tax losses and cannot be utilised by the tax-consolidated group.

(iv) Technovator Beijing was recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% during these years.

(v) The Group is not subject to Hong Kong corporate income tax during the six months ended 30 June 2011 and 2012.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to equity shareholders of the Company of US$4,785,000 (six months ended 30 June 2011: US$3,632,000) and the weighted average number of ordinary shares of 485,200,000 (six months ended 30 June 2011: 363,320,000, after adjusting the subdivision of shares in 2011) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US$4,785,000 (six months ended 30 June 2011: US$3,632,000) and the weighted average number of ordinary shares of 499,430,596 (six months ended 30 June 2011: 376,811,310, after adjusting the subdivision of shares in 2011) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares	**485,200,000**	363,200,000
Effect of deemed issue of ordinary shares under the Company's option scheme for nil consideration	**14,230,596**	13,611,310
Weighted average number of ordinary shares (diluted)	**499,430,596**	376,811,310

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in United States dollars unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired certain items of property, plant and equipment with costs of US$1,750,000 (six months ended 30 June 2011: US$592,000).

9 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are external trade debtors and bills receivable (net of allowance of doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2012 '000	At 31 December 2011 '000
Current	**25,196**	17,838
Less than 1 month past due	**4,456**	4,758
1 to 6 months past due	**9,073**	2,431
6 months to 1 year past due	**1,177**	2,114
More than 1 year past due	**1,097**	980
Trade debtors, net of allowance for doubtful debts	**40,999**	28,121
Other receivables	**667**	437
Loans and receivables	**41,666**	28,558
Deposits and prepayments	**1,911**	2,578
	43,577	31,136

Trade debtors and bills receivable are due within 30–180 days from the date of billing.

10 CASH AND CASH EQUIVALENTS

	At 30 June 2012 '000	At 31 December 2011 '000
Deposit with banks and other financial institutions	**62**	62
Cash at bank and in hand	**20,729**	27,878
Cash and cash equivalents	**20,791**	27,940

11 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	At 30 June 2012 '000	At 31 December 2011 '000
Current	**17,424**	18,038
More than 3 months but within 6 months past due	**438**	228
More than 6 months but within 12 months past due	**561**	476
More than 12 months past due	**1,189**	1,173
Trade creditors and bills payable	**19,612**	19,915
Other payables and accruals	**5,715**	5,881
Financial liabilities measured at amortised cost	**25,327**	25,796
Receipts in advance	**823**	734
Deferred income	**32**	32
	26,182	26,562

All of the above balances are expected to be settled within one year.

12 CAPITAL, RESERVES AND DIVIDENDS

(a) Capital

There has been no exercise of stock option which impact share capital for the six months period ended 30 June 2012 (six months period ended 30 June 2011: Nil).

(b) Dividends

The Company has not declared any dividends for the six months period ended 30 June 2012 and 2011.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in United States dollars unless otherwise indicated)

13 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in this interim financial report, the Group entered into the following significant related party transactions during the period.

(a) Name and relationship with related parties

During the period, transactions with the following parties are considered as related party transactions:

Name of party	Relationships
Tongfang Co., Ltd.* (同方股份有限公司)	Single largest shareholder with significant influence
Tsinghua Tongfang Artificial Environment Co., Ltd.* (同方人工環境有限公司)	Subsidiary of Tongfang Co., Ltd.
Liaoning Tongfang Security Technology Co., Ltd.* (遼寧同方安全技術有限公司)	Subsidiary of Tongfang Co., Ltd.
Tongfang Health and Technology (Beijing) Co., Ltd. * (同方健康科技(北京)有限公司)	Subsidiary of Tongfang Co., Ltd.

* The official name of these entities is in Chinese. The English translation of the name is for reference only.

(b) Significant related party transactions

Particulars of significant related party transactions during the six months ended 30 June 2011 and 2012 are as follows:

	Six months ended 30 June	
	2012	2011
	US$'000	US$'000
Sales to Tongfang Co., Ltd.	**9,113**	4,420
Purchases from Tongfang Co., Ltd.	**434**	152
Purchases from Liaoning Tongfang Security Technology Co., Ltd.	**52**	224
Purchases from Tsinghua Tongfang Artificial Environment Co., Ltd.	**35**	–
Rental expenses paid to Tongfang Co., Ltd.	**131**	152
Machineries rental expenses paid to Tongfang Co., Ltd.	**26**	25

Other than the above related party transactions, certain trademarks are used by the Group in the PRC licensed by Tongfang Co., Ltd. at nil consideration.

The directors consider that the above related party transactions during the period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

14 SUBSEQUENT EVENT

Subsequent to the balance sheet date, the board of directors of the Company announces that on 23 July 2012 (the "Date of Grant"), the Company granted 48,500,000 share options (the "Share Options") to subscribe for a total of 48,500,000 ordinary shares in the share capital of the Company (the "Shares"), subject to acceptance of the grantees (the "Grantees"), under the share option scheme adopted by the Company on 18 May 2012.

Among the 48,500,000 Share Options granted, 17,400,000 Share Options were granted to the directors and chief executives of the Company, including Lu Zhicheng (Chairman and non-executive), Zhao Xiaobo (Chief executive officer and executive director), Seah Han Leong (Chief operating officer and executive director) and Leung Lok Wai (Chief financial officer). The granting of the Share Options to the above directors and chief executives was approved by all the independent non-executive directors of the Company.

Each Share Option entitles the holder of the Share Option to subscribe for one Share upon exercise of such Share Option at an exercise price of HK$1.15 per Share, which represents the closing price on the Date of Grant and the average closing price for the five business days immediately preceding the Date of Grant.

The Share Options granted shall have an exercisable period of 5 years from the Date of Grant and 50% of the total number of Options granted will be vested after the second anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2012 and the remaining 50% will be vested after the third anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2013.