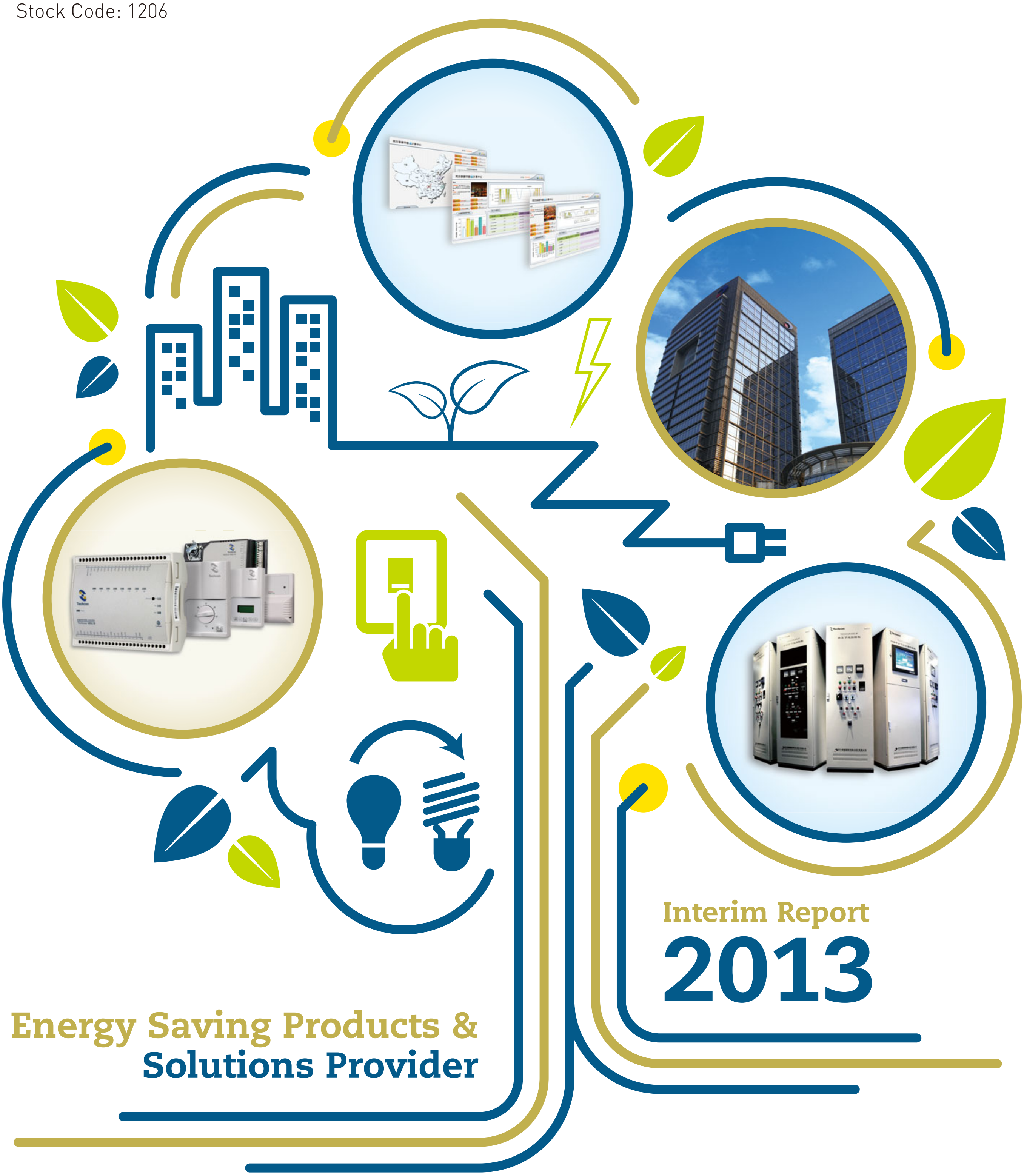
Technovator

Technovator International Limited

(incorporated in Singapore with limited liability)

Stock Code: 1206



Interim Report 2013

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)*
Dr. Li Jisheng (李吉生)
Mr. Liu Tianmin (劉天民)
Mr. Ng Koon Siong (黃坤商)

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

Unit 1602-03, Tower 1
China HK City
33 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

KPMG
KPMG LLP

SINGAPORE PRINCIPAL SHARE REGISTRAR

Tricor Barbinder Share Registration Services
8 Cross Street #11-00
PWC Building
Singapore 048424

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)
The Hongkong and Shanghai Banking Corporation Limited (Hong Kong)
DBS Bank Ltd (Singapore)

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations (China) Limited

OVERVIEW

For the six months ended 30 June 2013, Technovator International Limited ("Technovator" or the "Company", together with its subsidiaries, the "Group") benefitted from the strengthening cooperation on research and development globally with a prosperous market continuing to develop in China and the overseas market also performing, achieving a stable growth and sound results during the period.

Continuing to enhance Research and Development

In order to consolidate its leading technological position, as a forerunner enterprise in the arena of building energy saving, Technovator has always been striving to offer all-rounded energy saving solutions and are devoted to research and development ("R&D") and designing innovative products. We will further strengthen our R&D capabilities, increase the scope for innovation and diversify the product portfolio. During the period, in terms of R&D, the Group has invested US$6.2 million which represented 10.3% of its revenue in improving and upgrading its hardware and software to further strengthen its technical expertise and product competitiveness in the global market.

With its three R&D centers set up in China, Canada and France as base, the Group aims to achieve a complementary competitive advantage. Meanwhile, we continue to explore the strategic cooperations with renowned enterprises, universities and research institutions, so as to expand the scope of technological research and product development methodology and meet customers' growing demands for localized and tailor-made solutions.

A research institute on building energy saving was set up in Beijing by the Group. The institute is led by Dr Zhao Xiao Yu, a renowned expert in the field of building energy saving, and has attracted more than 10 professionals in the industry as well as closely relies on the talents and scientific and research capabilities from Tsinghua University. The institute focuses on the research of core theories and calculation on building energy saving, as well as the development and upgrade of the Energy Managing System software. E-Cloud Service Centre, which has been established and put into operations during the period, is the first cloud-based energy saving monitoring platform in mainland China, and is devoted to providing services such as high-end monitoring, measurement and analysis of energy consumption for the players of various levels in the construction industry.

Thriving prospects on PRC market

In recent years, the Chinese government has increasingly focused on building energy conservation and has successively issued a series of related policies and regulations. Under the 12th Five-Year Plan ("12th FYP"), Ministry of Housing and Urban-Rural Development ("MOHURD") in China has put forward the goal to reduce emission to 116 million tons of standard coal in building energy consumption by 2015. Various local governments have also issued corresponding policies to support the development in the building energy conservation industry. In the meantime, the Chinese Green Building Movement Plan was issued by the MOHURD to further implement energy efficiency policies on an indicative basis. This mainly includes Northern China Energy Saving Warm House project and large public building construction and retrofit. It is expected that new green buildings occupying 1,000,000,000 m^2 will be constructed during the period of "12th FYP" and the existing buildings of 570,000,000 m^2 will undergo energy saving retrofit. By 2015, 20% of the new buildings in urban area will meet the standard requirement of green buildings.

In March 2013, the Group participated in the Karamay Project (the "Project") and was responsible for supplying intelligence energy saving products and equipment. The involvement in the transaction is of great importance in respect of the execution of the business strategy of the Group. Karamay in Xinjiang has undergone rapid development and thus the government places great importance on energy saving and reduction of waste discharges. The Project is to carry out smart system construction works in the building complex around the culture and sports centers in Karamay. The Project occupies an area of about 780,000 m^2. We believe that the execution of the Project will present more business opportunities for the Group in the energy saving construction industry in Karamay. More importantly, the Project represents a milestone for the Group in providing large scale comprehensive energy saving services for municipal public utilities. We are expecting to conduct more large scale projects similar to the Karamay project in the future under the vigorous green city promotion effort driven by the Chinese government.

The Group conducted the overall energy-saving reform of central heating engineering in Taiyuan in the end of 2012 and it was launched for operation from 2012 to winter of 2013, receiving remarkable efficiency. Such project is the key project of environmental reform in Taiyuan. The Group adopted the business model of Energy Management Contract ("EMC"), focusing on the energy reform and integrated monitoring of heating network in the city. It includes 180 thermal stations and 1 monitoring centre, involving heating area of over 12 million sq.m.. Since the completion of the project, it helped property owners to save over RMB8 million in the first heat supplying season during the period. The successful implementation of this project represents another important practice of Technovator in the realm of city heating and energy-saving. Besides, the adoption of EMC model enables the Group to share more rewards in energy efficiency during the period.

Meanwhile, the construction for building energy saving urbanization projects in Chongqing, a key pilot city in China for energy saving, goes well and has attained good results. During the period of 12th FYP, over 2 million sq.m. in Chongqing will be undergoing the building energy saving retrofit under the EMC business model. The financial incentives and tax treatment provided by the central and local Chinese government will become favorable incentives for the Group under this new business model, while the energy efficiency sharing model will increase the future income of the Group. We expect the EMC model will be one of the key government policies in promoting the conservation of building energy and we intend to invest more resources for the progressive exploration and implementation of the EMC model.

Stable development in overseas market

Despite the continuing economic downturn in the US and Europe, the rapid growth in energy prices, the continuing depletion of energy reserves and climate change, countries around the globe have started to put forward proposals on energy saving as well as environmental protection issues. Relevant governments policies, laws and regulations have been introduced. The Group is committed to strengthening and expanding the worldwide sales and distribution network and enhancing its brand recognition and market position internationally. During the Period, we have secured quite a few mega-size contracts leveraging on our high quality product and services. At the same time, we are committed to promoting the commercialized development of our energy saving products and solutions in order to cater for the demands of customers with a number of branches.

Green building industry is fairly new to Southeast Asia. The region is hot and humid and has a great demand for building energy saving management. This offers a huge room for the Group's business development. In recent years, a number of zero-energy-consuming green buildings began to appear one after another in Singapore, Malaysia and Thailand as well as other Southeast Asian countries. Numerous green buildings in various regions have evolved into new building standards. During the period, the Group's subsidiary Technovator South East Asia Pte Ltd. actively tapped into the business opportunities in the region, striving to establish a comprehensive sales and distribution network in order to strengthen its coverage in the region.

In March 2013, several institutional and strategic investors were introduced to Distech Controls (being responsible for the overseas market business of the Group) during the period, which optimised Distech Controls' shareholding structures and provided an opportunity to introduce sound industry players to Distech Controls in order to strengthen its business. In addition, the transaction provided additional working capital for the Group and also a good opportunity for the Company and Distech Controls to realize approximately CAD$28 million while the Company retained its control over Distech Controls and its financial results will continue to be consolidated into the accounts of the Group. The introduction of new investors in Distech Controls has indicated a strong confidence on the prospect of the Group's business in the overseas market. Furthermore, this strategic transaction will further strengthen the financial position of the Group for the development of its business and will most effectively increase the Group's market competitiveness and enhance the value of the Group.

FINANCIAL REVIEW – CONTINUING OPERATIONS

Revenue

Our total revenue increased by approximately US$10.5 million from approximately US$49.3 million for the six months ended 30 June 2012 to approximately US$59.8 million for the six months ended 30 June 2013. The increase was mainly due to our continuous efforts in increasing our brand recognition, implementing intensive marketing and business development strategies, 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), and progressive implementation of the EMC projects.

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				2013 vs.
	2012		**2013**		**2012**
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
Building energy saving solution:					
Integrated building automation systems	36,775	74.6%	**43,675**	**73.1%**	18.8%
Energy management systems	8,090	16.4%	**11,526**	**19.3%**	42.5%
Others:					
Control security systems	4,325	8.8%	**4,392**	**7.3%**	1.5%
Fire alarm systems	99	0.2%	**183**	**0.3%**	84.8%
Total	49,289	100.0%	**59,776**	**100.0%**	21.3%

Integrated building automation systems

Revenue from integrated building automation systems increased by approximately US$6.9 million from approximately US$36.8 million for the six months ended 30 June 2012 to US$43.7 million for the six months ended 30 June 2013 which was contributed by increase in sales to both our PRC and overseas markets. For the PRC market, we recorded revenue from integrated building automation systems of approximately US$16.7 million for the six months ended 30 June 2013, representing an increase of 20.2% over the same period in 2012. For the overseas markets, we recorded revenue from integrated building automation systems of approximately US$27.0 million for the six months ended 30 June 2013, representing an increase of 17.9% over the same period in 2012. The increase in sales 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$3.4 million from approximately US$8.1 million for the six months ended 30 June 2012 to approximately US$11.5 million for the six months ended 30 June 2013. The increase in sales 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, and (v) progressive implementation of the EMC projects.

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 7.6% of the Company's revenue and slightly increased by approximately US$0.2 million for the six months ended 30 June 2013.

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				2013 vs.
	2012		**2013**		**2012**
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
The PRC	26,409	53.6%	**32,806**	**54.9%**	24.2%
North America	14,142	28.7%	**14,612**	**24.4%**	3.3%
The rest of the world	8,738	17.7%	**12,358**	**20.7%**	41.4%
Total	49,289	100.0%	**59,776**	**100.0%**	21.3%

Revenue from the PRC market increased by approximately US$6.4 million to approximately US$32.8 million for the six months ended 30 June 2013 from approximately US$26.4 million for the six months ended 30 June 2012. This increase in sales 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) slightly increased by approximately US$0.5 million to approximately US$14.6 million for the six months ended 30 June 2013 from approximately US$14.1 million for the six months ended 30 June 2012.

Apart from the above mentioned 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 increased slightly by approximately US$3.6 million to approximately US$12.4 million for the six months ended 30 June 2013 as compared with the same period in 2012. The increase was mainly attributable to our successful marketing strategy in Europe market.

Cost of sales

Cost of sales increased by approximately 20.4%, or approximately US$6.0 million, from approximately US$29.5 million for the six months ended 30 June 2012 to approximately US$35.5 million for the six months ended 30 June 2013. The increase was primarily due to the increase in cost of raw materials from approximately US$27.8 million for the six months ended 30 June 2012 to approximately US$33.5 million for the six months ended 30 June 2013, 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$4.4 million from approximately US$19.8 million for the six months ended 30 June 2012 to approximately US$24.2 million for the six months ended 30 June 2013. Gross profit margin remained steady at about approximately 40.1% for the six months ended 30 June 2012 and the six months ended 30 June 2013.

Other revenue

Other revenue for the six months ended 30 June 2013 increased by approximately US$0.3 million from approximately US$0.1 million for the six months ended 30 June 2012. The increase was primarily due to the one-off government subsidy received in the six months ended 30 June 2013.

Other net (loss)/gain

Other net (loss)/gain decreased by approximately US$0.18 million from approximately US$0.06 million gains for the six months ended 30 June 2012 to approximately US$0.12 million in losses for the six months ended 30 June 2013. The decrease was primarily due to an approximately US$0.08 million increase in foreign exchange loss and an approximately US$0.09 million increase in net loss on disposal of fixed assets during the period.

Selling and distribution costs

Selling and distribution costs increased by approximately US$0.7 million, from approximately US$4.7 million for the six months ended 30 June 2012 to approximately US$5.4 million for the six months ended 30 June 2013. 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.

Administrative and other operating expenses

Administrative and other operating expenses slightly increased by approximately US$0.7 million, from approximately US$6.2 million for the six months ended 30 June 2012 to approximately US$6.9 million for the six months ended 30 June 2013. The increase was primarily due to increase in the number of employees.

Research and development expenses

Research and development expenses increased from approximately US$1.5 million for the six months ended 30 June 2012 to approximately US$2.4 million for the six months ended 30 June 2013, mainly due to our continuous efforts in research and development activities.

Finance costs

Finance costs increased by approximately US$0.12 million, from approximately US$0.23 million for the six months ended 30 June 2012 to approximately US$0.35 million for the six months ended 30 June 2013. The increase was primarily due to an increase in average outstanding loans and borrowings for the six months ended 30 June 2013 as compared with the corresponding period of last year.

Income tax

Income tax increased from approximately US$1.6 million for the six months ended 30 June 2012 to US$2.2 million for the six months ended 30 June 2013. The increase was mainly due to an increase in the Group's profit before taxation. The effective tax rate increased from 21.8% for the six months ended 30 June 2012 to 23.5% for the six months ended 30 June 2013. The increase was primarily due to change in composition of profits generated from different countries.

Profit for the period

As a result of the foregoing factors, profit attributable to equity holders for the period increased by approximately 30.2% from approximately US$4.8 million for the six months ended 30 June 2012 to approximately US$6.2 million for the six months ended 30 June 2013. Net profit margin increased slightly from approximately 11.6% for the six months ended 30 June 2012 to 12.1% for the six months ended 30 June 2013.

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 2012 (US$'000)	**As at 30 June 2013 (US$'000)**
Inventories	12,208	**15,232**
Trade and other receivables	47,888	**60,717**
Trade and other payables	44,052	**48,085**
Average inventories turnover days	62	**70**
Average trade and other receivables turnover days	116	**164**
Average trade and other payables turnover days	162	**235**

Inventories increased from approximately US$12.2 million as at 31 December 2012 to approximately US$15.2 million as at 30 June 2013, which was primarily due to a stock up of inventory in anticipation of securing large-scale projects.

Average inventory turnover days increased from approximately 62 days for the twelve months ended 31 December 2012 to 70 days for the six months ended 30 June 2013. 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 other receivables amounted to approximately US$47.9 million and approximately US$60.7 million as at 31 December 2012 and 30 June 2013, 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 and other receivable turnover days were approximately 116 days and 164 days for the year ended 31 December 2012 and six months ended 30 June 2013, respectively. The relatively higher trade and other receivable turnover days 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 and comparatively high sales performance during the second quarter of 2013. Therefore, the average trade and other receivable turnover days were relatively higher as compared to the full year of 2012.

Trade and other payables slightly increased from approximately US$44.1 million as at 31 December 2012 to approximately US$48.1 million as at 30 June 2013 resulting primarily from our business growth.

The Group's average trade and other payable turnover days was approximately 162 days and 235 days for the year ended 31 December 2012 and six months ended 30 June 2013 respectively. The increase in trade and other 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 2012.

Liquidity and financial resources

We maintained a healthy liquidity position during the first half of 2013. We principally financed our operations by internal resources. As at 30 June 2013, we had approximately US$49.1 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 2013, our indebtedness consisted of short-term loans of approximately US$9.0 million with an average annual interest rate of 5.41%, long-term loan of approximately US$5.0 million with an average annual interest rate of 3.64% and obligations under finance lease of approximately US$0.16 million. The short-term loans mainly represented an unsecured term loan of US$3.2 million from China Citic Bank, an unsecured term loan of approximately US$1.6 million from Bank of Beijing, a term loan of approximately US$3.3 million and secured bank overdraft of approximately US$0.02 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 2013, defined as loans and borrowings divided by total assets, is 7.6% (as at 31 December 2012: 10.2%).

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 relate. 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 2013, certain of our interest-bearing bank borrowings were pledged by the Group's assets. The Group's pledged assets increased from approximately US$14.8 million as at 31 December 2012 to approximately US$17.2 million as at 30 June 2013 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 2012 and 30 June 2013. Our operating lease commitments relate primarily to our leases of office spaces, workspaces and machineries.

	As at 31 December 2012 (US$'000)	**As at 30 June 2013 (US$'000)**
Within one year	1,021	**875**
After one year but within five years	1,458	**1,047**
Total	2,479	**1,922**

We had no capital commitments contracted for, and authorized but not contracted for, but not provided in the financial statements as at 30 June 2013.

Contingent liabilities

As at 30 June 2013, 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 2013, we had a total of 471 employees, an increase of 19.6% compared to 394 employees as at 30 June 2012. Total staff costs for the six months ended 30 June 2013 increased to approximately US$9.7 million from approximately US$8.3 million for the six months ended 30 June 2012, 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 announcement, we have deposited the unutilised net proceeds of approximately US$6 million 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 2013, no acquisition or disposal of subsidiaries or associates was made by us.

Significant investment

For the six months ended 30 June 2013, we had no significant investment.

PROSPECTS

Although the economic environment remains uncertain, owing to the growing awareness of environmental protection globally, there is a growing demand for building energy management systems over the world, encouraged and driven by government policies across different countries. As a leading building energy management systems and solutions services provider, the Group will continue to seize business opportunities and maintain its business growth.

Focusing on techniques and product development

Given the continuous upgrade of the energy saving industry and the booming stage of the energy saving market, the Group will focus on researching and developing more advanced localized solutions to maintain a stable growth. We will allocate more resources, strengthen research and development capabilities, expand new product innovation in order to maintain our leading technological position in the building energy saving industry. In the meantime, the Group will extend and strengthen its partnership with international leading technology companies and institutions with an aim to enhance its technological expertise. Not only will our strengthened R&D capabilities and improved production capacities meet market demand, the investment also demonstrates the Group's continuous commitment to the development of the energy saving industry.

Capturing domestic opportunities

Statistics from "2013 Symposium of the Development of the Intelligent Building Industry" showed that the current market size of intelligent building industry in China is worth over RMB400 billion, and of which, the total investment on public construction and commercial properties amounted to RMB320 billion. It is expected that there will be a significant growth in the market size of such industry in the coming years. By 2020, it is expected that the total production value for China's energy saving and environment protection industry will exceed RMB5,000 billion while the market size of building energy saving will exceed RMB1,500 billion. In light of such opportunity for development, the Group will continue to build the nationwide marketing network, lead local small – and mid-sized enterprise to help the business expansion of the Group through co-operation and technical support, promote the Group's technology, local application of product and service with an aim to speed up the progress of energy saving retrofit urbanization projects in second-tier and third-tier cities, while focusing on the landmark projects in the first-tier cities and increasing the proportion of large-scale iconic projects.

Extending business reaches and enhancing the brand

Given a high standard of building energy management services over the years, Technovator has established close business relationships with over 200 systems integrators and also over 100 distributors in the world. To date, the Group's principal businesses have been topping list for years among other local brands in China.

As a global leading provider of building energy management solution services and product supplier, the Group plans to further capitalize on its advantages by strengthening the operation management and the establishment of sales and distribution network globally, so as to enhance its brand awareness and market share. In the meanwhile, it will on one hand enhance the strategic co-operation with upstream and downstream advantageous companies in the industry chain while on the other hand strive to expand the business of other technological realm in building energy-saving industry. Besides, it will also continue to explore strategic acquisition opportunities. help realize the Group's goal of a cross boundary development.

Going forward, the Group will continue to develop and bring forth new ideas for its products and services in order to satisfy customers' expectations and to create greater value for our shareholder.

CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2013, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Main Board Listing Rules.

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

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules throughout the six months ended 30 June 2013 as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all 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 throughout the six months ended 30 June 2013.

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 2013. The interim financial report is unaudited.

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 2013.

DIVIDENDS

The board of Directors has not recommended the payment of any interim dividend for the six months ended 30 June 2013.

DISCLOSURE OF INTERESTS

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

As at 30 June 2013, 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/ Chief Executive	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)	8,000,000	1.53%
	Beneficial owner	16,120,000	3.09%
	Beneficial owner	4,800,000(2)	0.92%(3)
Mr. Lu Zhicheng	Beneficial owner	4,800,000(2)	0.92%(3)
Mr. Zhao Xiaobo	Beneficial owner	12,120,000	2.32%
	Beneficial owner	4,800,000(2)	0.92%(3)
Mr. Leung Lok Wai	Beneficial owner	3,000,000(2)	0.58%(3)

Notes:

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

(2) Shares subject to options under the Share Option Scheme.

(3) The percentage of interest in the issued share capital of the Company is calculated based on the number of issued Shares without taking into account Shares which may be allotted and issued to all grantees upon their after full exercise of the options under the Share Option Scheme.

Save as disclosed above, as at 30 June 2013, 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 2013, 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	17.64% 15.34%
Resuccess Investments Limited	Beneficial owner	80,000,000	15.34%
Dragon Point Limited	Beneficial owner	65,436,320	12.55%
Zana China Fund L.P.	Interest in a controlled corporation[(2)]	65,436,320	12.55%
Diamond Standard Ltd	Beneficial owner	36,000,000	6.90%
Sun Lu	Beneficial owner Interest in a controlled corporation[(3)]	2,928,000 36,000,000	0.56% 6.90%
Liu Feng	Interest in a controlled corporation[(4)]	36,000,000	6.90%

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.

(3) Sun Lu owns one-third of the issued share capital of Diamond Standard Ltd and hence is deemed to be interested in all the Shares held by Diamond Standard Ltd.

(4) Liu Feng owns two-third of the issued share capital of Diamond Standard Ltd and hence is deemed to be interested in all the Shares held by Diamond Standard Ltd.

Save as disclosed above, as at 30 June 2013, 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.

There are no outstanding options under the Technovator Employee Share Option Scheme 2009.

(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") 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 before the listing of the Company. No further options will be granted under the Distech Controls Stock Option Plan after the listing of the Company.

Details of the movement of share options granted under the Distech Controls Stock Option Plan as at 30 June 2013 are as follows:

Name	Number of shares issuable under the share options		
	Outstanding as at 1 January 2013	Issued and repurchased by Distech Controls for cancellation upon exercise of share options during the six months ended 30 June 2013	Outstanding as at 30 June 2013
Employees	1,750,000	587,500	1,162,500

Save as disclosed above, no options granted under the Pre-IPO Share Option Schemes were exercised, lapsed or cancelled during the six months ended 30 June 2013.

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.

Details of such share options granted under the Share Option Scheme as at 30 June 2013 are as follows:

				Number of shares issuable under the share options	
Name	Date of Grant[(1)]	Exercise price per Share	Exercise period[(2)]	Outstanding as at 1 January 2013	Outstanding as at 30 June 2013
Director, chief executive or substantial shareholder					
Lu Zhicheng	23 July 2012	HK$1.15	23 July 2014–22 July 2017	4,800,000	4,800,000
Zhao Xiao bo	23 July 2012	HK$1.15	23 July 2014–22 July 2017	4,800,000	4,800,000
Seah Han Leong	23 July 2012	HK$1.15	23 July 2014–22 July 2017	4,800,000	4,800,000
Leung Lok Wai	23 July 2012	HK$1.15	23 July 2014–22 July 2017	3,000,000	3,000,000
Other Employees					
In aggregate	23 July 2012	HK$1.15	23 July 2014–22 July 2017	31,100,000	31,100,000
Total				48,500,000	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 conditional upon, the achievement of certain performance targets as set out in the offer letter, shall 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
Any time after the second anniversary of the Date of Grant	50% of the total number of options granted
Any time after the third anniversary of the Date of Grant	50% of the total number of options granted

No options granted under the Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2013.

Consolidated Income Statement

For the six months ended 30 June 2013 – unaudited
(Expressed in United States dollars)

	Note	Six months ended 30 June 2013 '000	2012 '000
Revenue	3, 4	**59,776**	49,289
Cost of sales		**(35,555)**	(29,535)
Gross profit		**24,221**	19,754
Other revenue		**400**	100
Other net (loss)/gain		**(119)**	61
Selling and distribution costs		**(5,371)**	(4,715)
Administrative and other operating expenses		**(6,892)**	(6,225)
Research and development expenses		**(2,401)**	(1,465)
Profit from operations		**9,838**	7,510
Finance costs	5(a)	**(348)**	(231)
Profit before taxation		**9,490**	7,279
Income tax	6	**(2,232)**	(1,586)
Profit for the period		**7,258**	5,693
Attributable to:			
Equity shareholders of the Company		**6,228**	4,785
Non-controlling interests		**1,030**	908
Profit for the period		**7,258**	5,693
Earnings per share	7		
Basic (US$)		**0.012**	0.010
Diluted (US$)		**0.012**	0.010

The accompanying notes form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013 – unaudited
(Expressed in United States dollars)

	Six months ended 30 June	
	2013	2012
	'000	'000
Profit for the period	**7,258**	5,693
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	**372**	(755)
Total comprehensive income for the period	**7,630**	4,938
Attributable to:		
Equity shareholders of the Company	**6,628**	4,053
Non-controlling interests	**1,002**	885
Total comprehensive income for the period	**7,630**	4,938

The accompanying notes form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2013 – unaudited
(Expressed in United States dollars)

	Note	At 30 June 2013 '000	At 31 December 2012 '000
Non-current assets			
Property, plant and equipment	8	**9,910**	7,161
Intangible assets		**18,725**	16,953
Goodwill		**16,134**	16,257
Other financial assets	9	**14,051**	5,348
Deferred tax assets		**417**	401
		59,237	46,120
Current assets			
Inventories		**15,232**	12,208
Trade and other receivables	10	**60,717**	47,888
Gross amounts due from customers for contract work		**564**	824
Cash and cash equivalents	11	**49,111**	40,505
		125,624	101,425
Current liabilities			
Trade and other payables	12	**48,085**	44,052
Gross amounts due to customers for contract work		**1,193**	199
Loans and borrowings		**8,988**	7,922
Obligations under finance leases		**4**	12
Income tax payable		**1,486**	1,523
		59,756	53,708
Net current assets		**65,868**	47,717
Total assets less current liabilities		**125,105**	93,837

The accompanying notes form part of this interim financial report.

At 30 June 2013 – unaudited
(Expressed in United States dollars)

	Note	At 30 June 2013 '000	At 31 December 2012 '000
Non-current liabilities			
Loans and borrowings		**5,004**	7,062
Obligations under finance leases		**155**	171
Deferred tax liabilities		**1,741**	2,100
Other non-current liabilities	13	**36,130**	–
		43,030	9,333
NET ASSETS		**82,075**	84,504
CAPITAL AND RESERVES			
Share capital	14	**38,121**	38,121
Reserves		**43,588**	39,781
Total equity attributable to equity shareholders of the Company		**81,709**	77,902
Non-controlling interests		**366**	6,602
TOTAL EQUITY		**82,075**	84,504

Approved and authorised for issue by the board of directors on 19 August 2013

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 2013 – unaudited
(Expressed in United States dollars)

		Attributable to equity shareholders of the Company								
	Note	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 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
Balance at 1 January 2013		38,121	3,897	2,504	651	(294)	33,023	77,902	6,602	84,504
Changes in equity for the six months ended 30 June 2013:										
Profit for the period		–	–	–	–	–	6,228	6,228	1,030	7,258
Other comprehensive income		–	–	468	(68)	–	–	400	(28)	372
Total comprehensive income for the period		–	–	468	(68)	–	6,228	6,628	1,002	7,630
Repurchase of non-controlling interests	14(b)	–	–	504	–	(3,460)	–	(2,956)	(7,238)	(10,194)
Equity settled share-based transactions		–	–	–	135	–	–	135	–	135
Balance at 30 June 2013		38,121	3,897	3,476	718	(3,754)	39,251	81,709	366	82,075

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 – unaudited
(Expressed in United States dollars)

		Six months ended 30 June	
		2013	2012
	Note	**'000**	'000
Cash used in operations		**(7,542)**	(2,455)
Income tax paid		**(2,575)**	(1,986)
Net cash used in operating activities		**(10,117)**	(4,441)
Net cash used in investing activities		**(7,276)**	(3,789)
Net cash generated from financing activities		**26,413**	1,117
Net increase/(decrease) in cash and cash equivalents		**9,020**	(7,113)
Cash and cash equivalents at 1 January	11	**40,505**	27,940
Effect of foreign exchange rates changes		**(414)**	(36)
Cash and cash equivalents at 30 June		**49,111**	20,791

The accompanying notes form part of this interim financial report.

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 19 August 2013. The interim financial report is unaudited.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 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 financial information relating to the financial year ended 31 December 2012 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 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2013.

(Expressed in United States dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Amendments to HKFRS 7 – *Disclosures – offsetting financial assets and financial liabilities*

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

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

(Expressed in United States dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures, if applicable, in note 15. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because 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.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

(Expressed in United States dollars unless otherwise indicated)

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 2012 and 2013 are as follows:

	Six months ended 30 June	
	2013	2012
	'000	'000
Sales of goods	**46,702**	41,486
Provision of services	**6,891**	5,156
Contract revenue	**6,183**	2,647
	59,776	49,289

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 identified 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.

(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 2013 and 2012 is set out below:

	BAS – PRC		BAS – North America		BAS – Europe		BAS – Other countries		CSS – PRC		FAS – PRC		EMS – PRC		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	'000	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000	**'000**	'000
Revenue from external customers	**16,705**	13,895	**14,612**	14,142	**8,096**	5,678	**4,262**	3,060	**4,392**	4,325	**183**	99	**11,526**	8,090	**59,776**	49,289
Inter-segment revenue	**3,472**	3,670	**277**	75	**–**	–	**1**	–	**–**	–	**–**	–	**–**	–	**3,750**	3,745
Reportable segment revenue	**20,177**	17,565	**14,889**	14,217	**8,096**	5,678	**4,263**	3,060	**4,392**	4,325	**183**	99	**11,526**	8,090	**63,526**	53,034
Reportable segment profit/(loss)	**2,266**	2,237	**2,839**	2,336	**1,544**	938	**813**	506	**170**	181	**22**	18	**4,936**	3,695	**12,590**	9,911

(Expressed in United States dollars unless otherwise indicated)

4 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June 2013 '000	2012 '000
Reportable Segment Profit		
Reportable segment profit	**12,590**	9,911
Elimination of inter-segment profits	**74**	(64)
Reportable segment profit derived from Group's external customers	**12,664**	9,847
Depreciation and amortisation	**(2,256)**	(1,890)
Finance costs	**(348)**	(231)
Unallocated head office and corporate expenses	**(570)**	(447)
Consolidated profit before taxation	**9,490**	7,279

(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 2013 '000	2012 '000
Revenue derived from:		
PRC	**32,806**	26,409
United States	**12,325**	11,972
France	**5,605**	3,198
Canada	**2,287**	2,170
Switzerland	**1,007**	937
The Netherlands	**232**	333
Other countries	**5,514**	4,270
	59,776	49,289

(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	
	2013	2012
	'000	'000
Interest on loans and borrowings	**347**	229
Other financial costs	**1**	2
	348	231

(b) Other items

	Six months ended 30 June	
	2013	2012
	'000	'000
Amortisation	**1,741**	1,449
Depreciation	**515**	441
Interest income	**(106)**	(22)

6 INCOME TAX

Income tax in the consolidated income statements represents:

	Six months ended 30 June	
	2013	2012
	'000	'000
Current tax	**2,562**	1,943
Deferred tax	**(330)**	(357)
	2,232	1,586

(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 2013 (six months ended 30 June 2012: 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 27% for the six months ended 30 June 2013 (six months ended 30 June 2012: 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 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 2013 (six months ended 30 June 2012: Nil).

(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") formed a tax-consolidated group under the French tax law and subject to French corporate income tax at rate of 33.33% for the six months ended 30 June 2013 (six months ended 30 June 2012: 33.33%).

(iv) Technovator Beijing was recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% during the six months ended 30 June 2012 and 2013.

(v) The Group is not subject to Hong Kong corporate income tax during the six months ended 30 June 2012 and 2013.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$ 6,228,000 (six months ended 30 June 2012: US$ 4,785,000) and the weighted average number of ordinary shares of 521,520,000 (six months ended 30 June 2012: 485,200,000) in issue during the interim 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$ 6,228,000 (six months ended 30 June 2012: US$ 4,785,000) and the weighted average number of ordinary shares of 528,102,781 (six months ended 30 June 2012: 499,430,596).

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired certain items of property, plant and equipment with costs of US$ 3,734,000 (six months ended 30 June 2012: US$ 1,750,000).

9 OTHER FINANCIAL ASSETS

Other financial assets represent long-term trade receivables of certain construction contracts which are repayable by instalments over a 5 to 7 years period.

(Expressed in United States dollars unless otherwise indicated)

10 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 end of the reporting period:

	At 30 June 2013 '000	At 31 December 2012 '000
Current	**29,069**	29,752
Less than 1 month past due	**7,504**	3,923
More than 1 month but less than 3 months past due	**1,673**	1,860
More than 3 month but less than 12 months past due	**15,052**	8,347
More than 12 months past due	**2,299**	1,250
Trade debtors, net of allowance for doubtful debts	**55,597**	45,132
Other receivables	**1,495**	847
Loans and receivables	**57,092**	45,979
Deposits and prepayments	**3,625**	1,909
	60,717	47,888

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

11 CASH AND CASH EQUIVALENTS

	At 30 June 2013 '000	At 31 December 2012 '000
Deposits with banks and other financial institutions	**62**	62
Cash at bank and in hand	**49,049**	40,443
Cash and cash equivalents	**49,111**	40,505

(Expressed in United States dollars unless otherwise indicated)

12 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis as of the end of the reporting period:

	At 30 June 2013 '000	At 31 December 2012 '000
By date of invoice:		
Within 3 months	**32,267**	28,966
More than 3 months but within 6 months	**1,690**	1,849
More than 6 months but within 12 months	**1,614**	410
More than 12 months	**1,490**	1,531
Trade creditors and bills payable	**37,061**	32,756
Other payables and accruals	**10,003**	10,806
Financial liabilities measured at amortised cost	**47,064**	43,562
Receipts in advance	**1,021**	474
Deferred income	**–**	16
	48,085	44,052

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

13 OTHER NON-CURRENT LIABILITIES

During the period ended 30 June 2013, Distech Controls issued preferred shares amounted to US$36.1 million.

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

There has been no exercise of stock option which impact share capital for the six months period ended 30 June 2013 (six months period ended 30 June 2012: Nil).

(b) Capital reserve arising from changes in ownership interests in subsidiaries

Capital reserve arising from changes in ownership interests in subsidiaries is resulted from transactions with equity holders in their capacity as equity holders. The balance comprises capital reserve movements arising from difference between fair value of consideration paid or received and the amount by which the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiary. For the six months period ended 30 June 2013, Distech Controls repurchased common shares from non-controlling shareholders for a total consideration of US$ 10,194,000.

(c) Dividends

The Company has not declared any dividends for the six months period ended 30 June 2013 and 2012.

(Expressed in United States dollars unless otherwise indicated)

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 30 June 2013.

16 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

Tongfang Co., Ltd. ("Tongfang")* (同方股份有限公司)

Tsinghua Tongfang Artificial Environment Co., Ltd.* (同方人工環境有限公司)

Liaoning Tongfang Security Technology Co., Ltd.* (遼寧同方安全技術有限公司)

Beijing Tongfang Property Management Co., Ltd.* (北京同方物业管理有限公司)

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

Tongfang is the single largest shareholder holding 32.98% of the issued capital of the Company as at 30 June 2013 and is a controlling shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Other related parties listed above are subsidiaries of Tongfang.

(b) Significant related party transactions

Particulars of significant related party transactions during the six months ended 30 June 2012 and 2013 are as follows:

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
Sales to Tongfang Co., Ltd.	**8,808**	9,113
Purchases from Tongfang and its subsidiaries	**1,388**	521
Rental expenses paid to Tongfang Co., Ltd.	**105**	131
Machineries rental expenses paid to Tongfang Co., Ltd.	**26**	26

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.