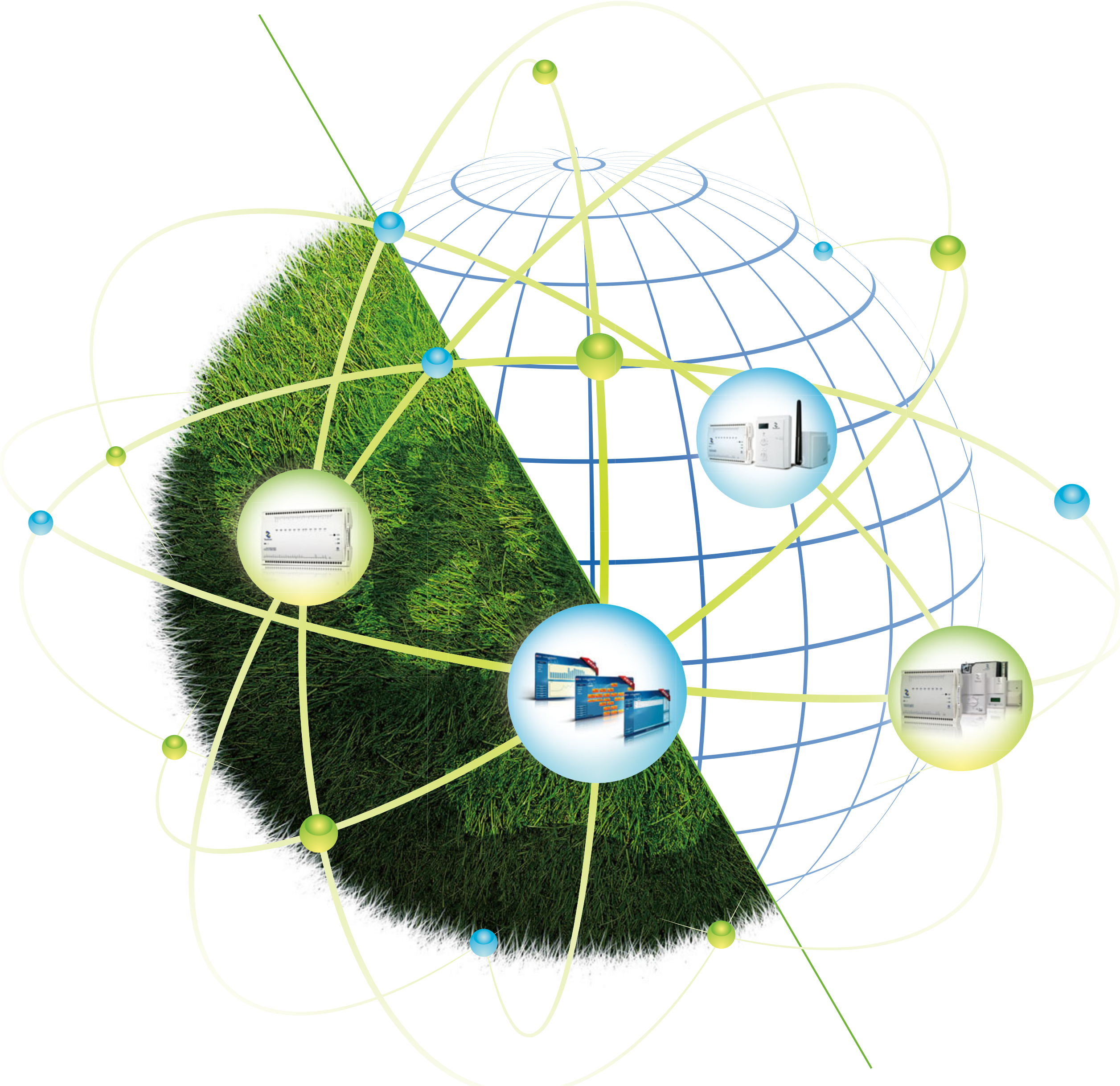
Technovator

Technovator International Limited

(incorporated in Singapore with limited liability)

Stock Code: 1206



Energy Saving
Products & Solutions Provider

Annual Report 2011

Company Profile

Established in 2005, Technovator International Limited is one of the leading providers of building energy management systems and solutions services with a scalable vertically–integrated global business model. The Group operates with a global footprint in five countries around the world including China, Canada, France, Singapore and the US, supported by a worldwide sales network, and ranked the largest domestic player in China market. Its largest shareholder is the Shanghai-listed Tsinghua Tongfang Co., Ltd.(SSE:600100) which was established under the umbrella of the world renowned Tsinghua University. The Group offers comprehensive energy-saving solutions for building environments around the world under two well-recognized brands: "Techcon" in China and "Distech Controls" in overseas markets, and has won many domestic and international awards and accreditations.

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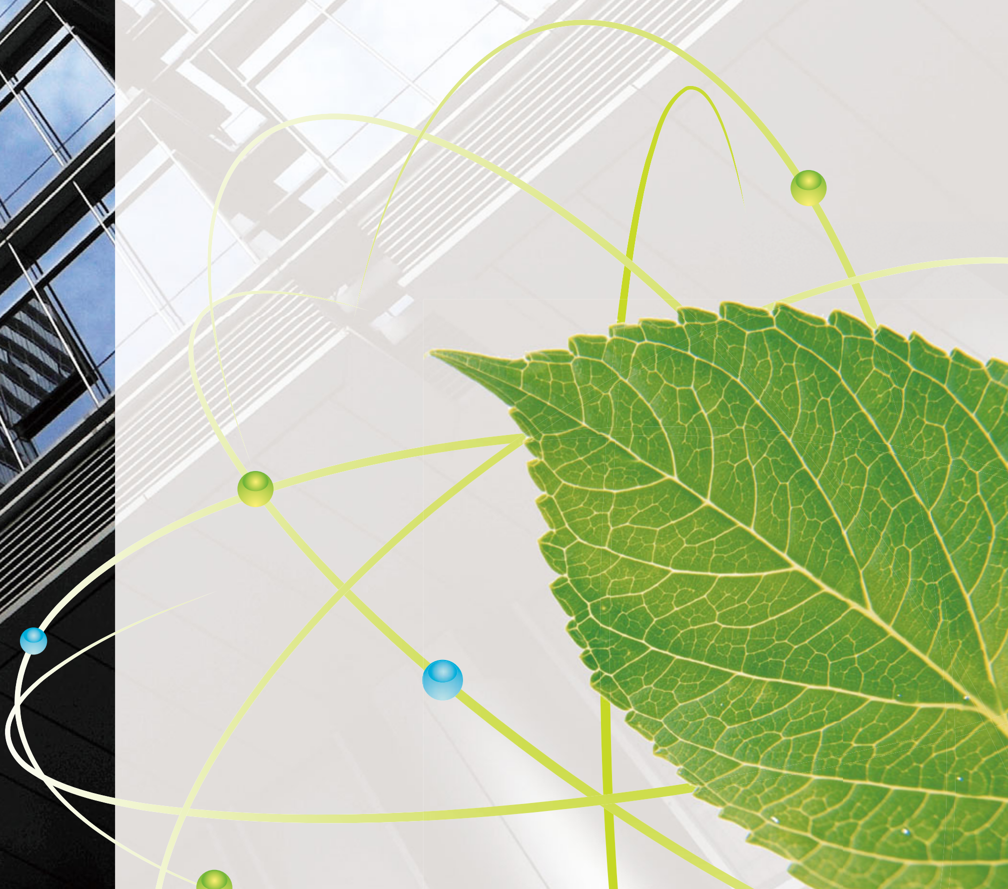

Corporate Information

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)
Ms. Shi Shanshan (施珊珊)

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 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)

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

Chairman's Statement

A leading providers of **building energy management systems** and **solutions services** with a scalable vertically-integrated global business model.

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") and the management, I am honored to present to you the report on the development and operating results of Technovator International Limited ("Technovator") for the year ended 31 December 2011, and extend our gratitude for your support.

On 27 October 2011, the Company was successfully listed on main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and received warm support from the investor public in an uncertain financial market environment in late 2011. Technovator is the first company under Tsinghua University that is listed overseas and the first spin-off listing from a mainland A-share listed company on an overseas stock exchange. This represented a strong encouragement and a valuable recognition to our commitment over the past years.

MANAGED TO SUSTAIN SIGNIFICANT GROWTH AND ACHIEVE OUR TARGET RESULTS IN 2011

For continuing operations for the year ended 31 December 2011, the Group's revenue amounted to US$97.5 million, representing an increase of 31.6% over the same period in 2010. Gross profit amounted to US$36.4 million, representing a growth of 44.4% over the same period in 2010. Net profit from continuing operations attributable to equity shareholders amounted to US$10.4 million, up 48.2% from the same period in 2010.

STRONG AND IN-DEPTH GLOBAL DISTRIBUTION NETWORK WAS AN ESSENCE TO EXPLORE DIFFERENT MARKETS

The global building energy management industry is undergoing different changes and development in different countries. In China, the growth of building energy management market is becoming faster under the support of various governments' energy policies and the speedy urbanization of second and third tier cities. In order to grasp this rapid growing market, the Group has put continuous efforts in building extensive and in-depth distribution network in China. As at the end of 2011, the Group has seven sales offices in seven cities in China, namely Beijing, Shanghai, Shenyang, Wuhan, Xi`an, Chengdu and Guangzhou. Under this extensive and in-depth distribution network, our high technology and high quality products were used in over 300 various types of sizable buildings including stadium, office, hotel, hospital, etc. In addition, the Group maintains close relationship with certain City Government so as to continue to provide building energy management solution to those cities which covers various energy management areas including sizable public construction, public lighting system and building energy management retrofitting. In our major overseas market, North America and Europe, our in-depth distribution network becomes even more important in order to sustain stable business growth under the uncertain economic environment in those countries. Our in-depth global distribution network enables us to have comparative advantages such as maintain closer relationships with customers, tailor for the customers' needs, increase the responsiveness to the market. With our continuing efforts to build and expand our strong and in-depth distribution network, we believe that it will help to drive the Group's sales among different countries, expand our market share and further solidify the leading position of Technovator.

CONTINUING INVESTMENT FOR OUR GLOBALIZED RESEARCH AND DEVELOPMENT CAPABILITY

Being a high-technology building energy management solution provider, "Technology" and "Innovation" are always two key elements for Technovator to continue its success. Therefore, the Group is continually investing to enhance its globalized research and development capability. As at the end of 2011, the Group has three research and development centers located in Beijing (the PRC), Brossard (Canada) and Brindas (France). For the year ended 31 December 2011, the Group has invested US$6.7 million, which represented 6.9% of its revenue in its research and development forces. During the same year, the Group has newly developed and launched an energy management system namely "ezEMS" which further enhanced the integration of building automation hardware and our energy management control software. In addition, another notable breakthrough in our energy management technology is the unification between low-voltage system and high-voltage system in order to achieve higher energy consumption efficiency. Furthermore, we have also developed and launched our battery-less and wireless building automation system which has enhanced our competitiveness in the building energy management market. We believe, with our continuous investment in our globalized research and development capability, the Group's market competitiveness will be strengthened among the peers in the market.

Chairman's Statement

AWARDS RECOGNIZED OUR PAST EXCELLENT PERFORMANCE AND GREAT FUTURE PROSPECT

Currently, Technovator operates its business operations in Asia, North America and Europe and maintain a global sales network through two well-recognized brands namely "Techcon" for China market and "Distech Controls" for overseas market. Over the past years, these two brands received many industry awards such as Intelligent Building Management System Excellent Brand Award and AHR Expo Innovation Honorable Award which proved that the Group's brands are fully recognized in the industry. In 2011, our major operating entity in Beijing received the "2011 Forbes China Best SMEs Award" which is given to those top-tier small and medium enterprises in China which shows the recognition of our strong, sustainable profitable performance and our well-recognized brand strength. We are the only company was elected in the building energy management industry in China. This award not only represented a strong encouragement and a valuable recognition to our great efforts over the past years but also a proven recognition of our prosperous future in the building energy management industry.

PROMOTION OF BUILDING ENERGY MANAGEMENT CONCEPT FOR SUSTAINABILITY

As a domestic leader and an international key player in the building energy management industry, Technovator never forgets its social responsibility while making considerable returns to its shareholders. Technovator has always participated in many industry academic forums, industry development committees and industry associations in order to contribute for the promotion of building energy management concept and the sustainable development of the industry. In 2011, Technovator participated in the amendment of the National Standard for Intelligent Building Construction Quality and Verification which provide more guidance to the industry participants about the intelligent building construction management and verification procedures. In addition, Technovator has maintained a close relationship with a famous university in China, Tsinghua University, which can enhance the interaction in the research and development aspects. Furthermore, our major overseas entity, Distech Controls, is also a member of several notable industry affiliations such as U.S. Green Building Council, BACnet International, etc. With all the above, Technovator not only can continue to keep abreast of market condition and upcoming industry policies but also can promote the building energy management concept in order to contribute for the industry development.

A NEW CHAPTER OF THE GROUP

In 2011, our Company's successfully listing on the Stock Exchange represented a strong encouragement and a valuable recognition to our commitment over the past years. My colleagues and I are deeply honored and encouraged but in the meantime, we are fully aware of our responsibilities.

2012 will be a new starting point for Technovator in our history and it will also be an important year for us to move towards a higher goal. As a domestic market leader in the building energy management solution industry based in China with global footprint around the world, we are facing both opportunity and challenge – Opportunity is the enormous market opportunity being posed by the rapid growth of China's building energy management market, and challenge is the strategy to sustain our business growth in our overseas market under the uncertain economic environment in the United States and Europe. In view of these, we will continue to expand and deepen our globalized distribution network, strengthen our research and development capability and boost up our brand recognition. With all these strategies, we believe we can embrace the opportunity and turn the challenge to an opportunity with our philosophy of continuing innovation and high technology and move forward with passion and ultimately become a world-class enterprise for greater achievements and results so as to generate excellent returns to our shareholders. Again, I would like to extend my appreciation to all shareholders for your relentless support.

Lu Zhicheng
Chairman

21 March 2012

Four Year Financial Summary

	2008	2009	2010	**2011**
('000 USD)				
Consolidated income statement				
Revenue	30,695	48,234	74,085	**97,513**
Cost of sales	(22,280)	(30,371)	(48,888)	**(61,118)**
Gross profit	8,415	17,863	25,197	**36,395**
Other revenue	127	54	1,433	**1,293**
Other net (loss)/gain	(87)	31	13	**(60)**
Selling and distribution costs	(2,932)	(4,308)	(6,720)	**(8,520)**
Administrative and other operating expenses	(2,984)	(4,487)	(8,798)	**(11,017)**
Research and development expenses	(511)	(1,817)	(1,945)	**(2,956)**
Finance expenses	(154)	(139)	(541)	**(542)**
Profit before taxation	1,874	7,197	8,639	**14,593**
Income tax	(336)	(1,576)	(1,459)	**(2,777)**
Profit for the year	1,538	5,621	7,180	**11,816**
Profit attributable to:				
Equity holders of the company	1,089	5,176	7,049	**10,445**
Non-controlling interests	449	445	131	**1,371**
Profit for the year	1,538	5,621	7,180	**11,816**
Basic earnings per share (US$) (Note)	0.004	0.014	0.019	**0.027**
Diluted earnings per share (US$) (Note)	0.004	0.014	0.019	**0.026**
('000 USD)				
Non-current assets	13,708	17,065	32,890	**33,757**
Current assets	30,210	32,712	49,915	**74,391**
Current liabilities	17,156	14,632	31,722	**31,634**
Net current assets	13,054	18,080	18,193	**42,757**
Total assets less current liabilities	26,762	35,145	51,083	**76,514**
Non-current liabilities	1,019	1,395	2,724	**5,786**
Total equity attributable to equity shareholders of the company	23,215	30,341	43,936	**65,013**
Non-controlling interests	2,528	3,409	4,423	**5,715**
Total equity	25,743	33,750	48,359	**70,728**
Net assets per share (Note)	0.07	0.09	0.13	**0.18**
Financial ratios				
Cost to income ratio	72.6%	63.0%	66.0%	**62.7%**
Pre-tax profit margin	6.1%	14.9%	11.7%	**15.0%**
Return on equity	6.0%	16.7%	14.8%	**16.7%**
Current ratio	1.8	2.2	1.6	**2.4**

Note: Basic earnings per share, diluted earnings per share and net assets per share for 2008, 2009, 2010 has been adjusted based on a 40-for-1 share subdivision of its issued ordinary shares on 15 August 2011.

Management Discussion and Analysis

Energy Management Systems

Technovator provides “intelligent building” energy management systems, which integrate building automation, energy measurement and information technology systems, into tailor-made total solutionsto customers in a wide range of industries catering to the needs of different customers. An energy management system is defined as the combination of a building automation system with energy analytics solutions and services, that are utilized to achieve improved energy efficiency within a single building or a multi-site facility while providing comfort to the occupants. Technovator’s customers are mostly system integrators which utilize technovator’s products and solution provided with a goal to save building or construction energy consumption.

Management Discussion and Analysis

OVERVIEW

2011 was a challenging and remarkable year for Technovator. The Company was successfully listed on main board of the Hong Kong Stock Exchange. In addition, we managed to sustain our business with significant growth.

On 27 October 2011, the Company was successfully listed on the Hong Kong Stock Exchange and received warm support from the investor public under the uncertain financial market in late of 2011. Technovator is the first overseas listed company under Tsinghua University and the first spin-off listing subsidiary by an A-share listed company on an overseas stock exchange.

Meanwhile, we never forgot to put effort in our business and operation so as to generate excellent returns to the shareholders of the Company (the "Shareholders"). In 2011, we managed to sustain significant growth in our business with our effort put in developing strong and in-depth sales channel, investing in research and development projects, increasing our brand recognition and contributing in building energy awareness of the society.

For the year ended 31 December 2011, the Group recorded revenue of approximately US$97.5 million, representing an increase of 31.6% from 2010. For the mainland China market, the Group recorded revenue of approximately US$58.2 million, representing an increase of 27.2% from 2010. For the overseas market, the Group recorded revenue of approximately US$39.3 million, representing an increase of 38.8% from 2010. Gross profit of the Group for the year ended 31 December 2011 was approximately US$36.4 million, representing an increase of 44.4% from 2010. Net profit from continuing operations attributable to equity shareholders for the year ended 31 December 2011 amounted to US$10.4 million, up 48% from the same period in 2010.

FINANCIAL REVIEW – CONTINUING OPERATIONS

Revenue

Our total revenue increased by approximately US$23.4 million from approximately US$74.1 million for the year ended 31 December 2010 to approximately US$97.5 million for the year ended 31 December 2011. The increase is mainly due to our continuous efforts mentioned aforesaid putting in its building energy saving solutions business (which including 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$19.5 million from approximately US$65.6 million for the year ended 31 December 2010 to approximately US$85.2 million for the year ended 31 December 2011.

Revenue by business segments

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

	For the year ended 31 December				**2011 vs.**
	2010		**2011**		**2010**
	Revenue *(US$'000)*	% of revenue	**Revenue** ***(US$'000)***	**% of revenue**	
Building energy saving solutions:					
Integrated building automation systems	59,989	81.0%	**77,519**	**79.5%**	29.2%
Energy management systems	5,616	7.6%	**7,633**	**7.8%**	35.9%
Others:					
Control security systems	7,935	10.7%	**12,090**	**12.4%**	52.4%
Fire alarm systems	545	0.7%	**271**	**0.3%**	(50.3%)
Total	74,085	100.0%	**97,513**	**100.0%**	31.6%

Integrated building automation systems
Revenue from integrated building automation systems increased by approximately US$17.5 million from approximately US$60.0 million for the year ended 31 December 2010 to approximately US$77.5 million for the year ended 31 December 2011 which was contributed by both our China and overseas markets. For the China market, the Group recorded revenue from integrated building automation of approximately US$38.2 million for the year ended 31 December 2011, representing an increase of 21.4% from 2010. For the overseas market, the Group recorded revenue from integrated building automation systems of approximately US$39.3 million for the year ended 31 December 2011, representing an increase of 37.9% from 2010.

The increase was primarily due to (i) the continuing growth of property development/renovation and building construction/renovation in China (ii) increasing global awareness of energy efficiency products for buildings, (iii) the increasing recognition of our brands and our product's quality, and (iv) strengthen our sales and marketing strategies in overseas market in order to focus more on mega-size contracts, develop and commercialise our energy-saving solution for customers with significant number of branches.

Energy management systems
Revenue from energy management systems increased by approximately US$2.0 million from approximately US$5.6 million for the year ended 31 December 2010 to approximately US$7.6 million for the year ended 31 December 2011. The increase was primarily due to (i) the increasing awareness of building energy-saving solution, (ii) our continuing investment in research and development to enhance the competitiveness of our energy management system, and (iii) the increasing recognition of our brands and our product's quality.

Control security systems and fire alarm systems
Controls security systems and fire alarm systems are two non-core business segments which in aggregate represented 12.7% of the Group's revenue for the year ended 31 December 2011. Revenue from control security systems increased from approximately US$7.9 million for the year ended 31 December 2010 to approximately US$12.1 million for the year ended 31 December 2011 because the progress of certain control security systems contracts entered in 2010 were deferred and the respective revenue was recognized in 2011.

Revenue by Geographical Region
The table below sets out our revenue by Geographical Region for the periods indicated.

	For the year ended 31 December				2011 vs.
	2010		2011		2010
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
The PRC	45,787	61.8%	**58,229**	**59.7%**	27.2%
U.S.	14,126	19.1%	**18,691**	**19.2%**	32.3%
Canada	2,547	3.4%	**2,261**	**2.3%**	(11.2%)
Europe	9,790	13.2%	**10,627**	**10.9%**	8.6%
Rest of the world	1,835	2.5%	**7,705**	**7.9%**	319.9%
Total	74,085	100.0%	**97,513**	**100.0%**	31.6%

Management Discussion and Analysis

Revenue from The PRC market increased by approximately US$12.4 million to approximately US$58.2 million for the year ended 31 December 2011 from approximately US$45.8 million for the year ended 31 December 2010. This increase was attributable to the (i) continuing growth of property development/renovation and building construction/renovation in China. (ii) increasing awareness of building energy-saving solution, and (iii) the increasing recognition of our brands and our product's quality.

Revenue from U.S. market increased by approximately US$4.6 million to approximately US$18.7 million for the year ended 31 December 2011 from approximately US$14.1 million for the year ended 31 December 2010. The increase was mainly attributable to our strengthen sales and marketing in this market segment in order to focus more on mega-size contracts, develop and commercialise our energy saving solution for customer with number of branch.

Revenue from Canada market decreased by approximately US$0.3 million to approximately US$2.3 million for the year ended 31 December 2011 from approximately US$2.5 million for the year ended 31 December 2010. The slight decrease was mainly due to the increasing competitiveness of the respective market.

Revenue from Europe market increased by approximately US$0.8 million to approximately US$10.6 million for the year ended 31 December 2011 from approximately US$9.8 million for the year ended 31 December 2010. This increase was attributable to the fact that our French subsidiary acquired in 2010 is continuing to expand the building energy saving products market in Europe.

Revenue from the rest of the world increased by approximately US$5.9 million to approximately US$7.7 million for the year ended 31 December 2011 from approximately US$1.8 million for the year ended 31 December 2010. This increase was attributable to the Group's continuous effort in expanding our building energy saving products in different countries globally.

Cost of sales

Cost of sales increased by approximately 25.0%, or approximately US$12.2 million, from approximately US$48.9 million for the year ended 31 December 2010 to approximately US$61.1 million for the year ended 31 December 2011. The increase was primarily due to the increase in cost of raw materials and manufacturing costs as a result of an overall increase in sales volume.

Gross profit

As a result of the foregoing factors, gross profit increased by approximately US$11.2 million from approximately US$25.2 million for the year ended 31 December 2010 to approximately US$36.4 million for the year ended 31 December 2011. Gross profit margin was approximately 34.0% for the year ended 31 December 2010 and approximately 37.3% for the year ended 31 December 2011 as gross profit margin was relatively high in 2011 due to a relatively higher margin contract that the Group recognized in 2011.

Other revenue

Other revenue decreased from approximately US$1.4 million for the year ended 31 December 2010 to approximately US$1.3 million for the year ended 31 December 2011, due to a approximately US$0.4 million decrease in value added tax refunds by the PRC tax bureau for the sale of the Group's energy management systems, partially offset by an approximately US$0.3 million increase in government grant income in view of its high and new technology enterprise status.

Other net (loss)/gain

Other net loss of approximately US$0.06 million was recorded for the year ended 31 December 2011 as compared to a net gain of approximately US$0.01 million for the year ended 31 December 2010 primarily due to the decrease of approximately US$0.17 million in net gain on disposal of fixed assets, partially offset by an approximately US$0.11 million decrease of net exchange loss.

Selling and distribution costs

Selling and distribution costs increased by approximately US$1.8 million, from approximately US$6.7 million for the year ended 31 December 2010 to approximately US$8.5 million for the year ended 31 December 2011. The increase was primarily due to an increase of approximately US$1.4 million in staff costs, business development costs and transportation costs associated with the expansion of the Group's sales and distribution network. As a percentage of sales, selling and distribution costs slightly decreased to 8.7% for the year ended 31 December 2011 from 9% for the year ended 31 December 2010.

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately US$2.2 million, from approximately US$8.8 million for the year ended 31 December 2010 to approximately US$11.0 million for the year ended 31 December 2011. The increase was primarily due to an increase of approximately US$0.4 million in administrative staff costs, an increase of approximately US$0.4 million in provision for doubtful debt, approximately US$0.6 million in audit fee and approximately US$0.6 million in listing expenses incurred in preparation for the Group's corporate restructuring and the Listing.

Research and development expenses

Research and development expenses increased from approximately US$1.9 million for the year ended 31 December 2010 to approximately US$3.0 million for the year ended 31 December 2011, mainly due to the increase of the Group's effort in research and development activities.

Finance costs

Finance costs incurred approximately US$0.5 million for the year ended 31 December 2011 which were maintained in similar level of 2010.

Income tax

Income tax increased from approximately US$1.5 million for the year ended 31 December 2010 to approximately US$2.8 million for the year ended 31 December 2011. The increase was mainly due to an increase in the Group's profit before taxation. The Group's effective tax rate increased from 16.9% for the year ended 31 December 2010 to 19.0% was mainly due to the change in composition of profits generated from different countries.

Profit for the year

As a result of the foregoing factors, profit attributable to equity shareholders for the year increased by approximately 48% from US$7.0 million for the year ended 31 December 2010 to US$10.4 million for the year ended 31 December 2011. Net profit margin increased from 9.7% for the year ended 31 December 2010 to 12.1% for the year ended 31 December 2011.

Management Discussion and Analysis

Working capital and financial resources

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

	As at December 31	
	2010 (US$'000)	**2011 (US$'000)**
Inventories	10,448	**14,807**
Trade and bills receivables	19,262	**26,243**
Trade payables	13,773	**18,968**
Average inventories turnover days	65	**75**
Average trade receivables turnover days	67	**85**
Average trade payables turnover days	73	**98**

The Group's inventories increased from approximately US$10.4 million as at 31 December 2010 to approximately US$14.8 million as at 31 December 2011 primarily due to additional storage of raw materials of approximately US$2.6 million and finished goods of approximately US$1.8 million in anticipation of securing large projects for sufficient supply.

The Group's average inventory turnover days increased from approximately 65 days in 2010 to 75 days for the year ended 31 December 2011 to cope with the Group's expansion.

The Group's trade and bills receivables amounted to approximately US$19.3 million and approximately US$26.2 million as at 31 December 2010 and 2011 respectively. Such increase in trade and bills receivables is due to the increase in the revenue of the Group as well as its global expansion.

The Group's average trade receivable turnover days was approximately 67 days and 85 days for the year ended 31 December 2010 and 2011 to cope with the Group's expansion.

The Group's trade payables increased from approximately US$13.8 million as at 31 December 2010 to approximately US$19.0 million as at 31 December 2011 resulting primarily from its global expansion and capability to negotiate for longer credit periods.

The Group's average trade payable turnover days was approximately 73 days and 98 days for the year ended 31 December 2010 and 2011 primarily attributable to the Group's capability to negotiate for longer credit periods, in particular, to cope with the longer credit period provided to the Group's customers (especially those project base customers) and the increased volume of the Group's business.

Liquidity and financial resources

During 2011, the Group has financed its operations primarily through cash flow from operations and proceeds from the global offering. As at 31 December 2011, the Group had approximately US$27.9 million in cash and cash equivalents. The Group's cash and cash equivalents consist primarily of cash at bank and on hand and deposits that are readily convertible into known amounts of cash.

As of 31 December 2011, the Group's indebtedness consisted of short-term loan of approximately US$3.6 million, average annual interest rate is approximately 5.1%, long-term loan of approximately US$3.4 million, average annual interest rate is approximately 4.4% and obligations under finance lease of approximately US$87,000. The short-term loan mainly represented an unsecured term loan of US$1.2 million from Bank of China, a secured term loan of approximately US$1.3 million and secured bank overdraft of approximately US$0.3 million from banks in the overseas.

The Group's 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. Details of the Group's interest rate risk are set out in note 26(c) to the financial statements.

Gearing ratio as at 31 December 2011, defined as loans and borrowings divided by total assets, is 6.4% (2010: 11.7%).

The Group is 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. The Group had not used any financial instruments for hedging purposes during the year under review. Nevertheless, the management will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when conditions are required. Details of the Group's exposure to currency risk are set out in note 26(d) to the financial statements.

Pledge of assets

As at 31 December 2011, certain of the Group's interest-bearing bank borrowings were pledged by the Group's assets. The Group's pledged assets increased from approximately US$8.5 million as at 31 December 2010 to approximately US$9.2 million as at 31 December 2011 resulting primarily from the requirement of the bank.

Contractual obligation and capital commitments

The following table sets forth the Group's non-cancellable operating lease commitments as at 31 December 2010 and 2011. The Group's operating lease commitments relate primarily to its leases of office spaces, workspaces and machinery.

	2010 *(US$'000)*	**2011** ***(US$'000)***
Within one year	960	**965**
After one year but within five years	1,580	**1,714**
Total	2,540	**2,679**

The Group had no capital commitments contracted for, and authorized but not contracted for, but not provided in the financial statements as at 31 December 2011.

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

Off-balance sheet arrangements

The Group does not have any special purpose entities that provide financing, liquidity, market risk or credit support to it or engage in leasing, hedging or research and development services with it. The Group has not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, The Group has not entered into any derivative contracts that are indexed to the shares of the Company (the "Shares") and classified as Shareholders' equity, or that are not reflected in its financial statements. Moreover, the Group does 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 31 December 2011, the Group had a total of 349 employees, an increase of 12.2% compared to 311 employees as at 31 December 2010. Total staff costs for 2011 increased to approximately US$9.8 million from approximately US$7.6 million for the year ended 2010, mainly due to employee and salary increment.

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

The Group provides training to its employees locally on a regular basis to keep them abreast of their knowledge in the Group's products, technology developments and market conditions of its industry. The Group also provides additional training for each new product launch so to facilitate its frontline sales staff's sales and orientation efforts. In addition, the Group's 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 Hong Kong 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 in accordance with the proposed applications set out in the section headed "Use of Proceeds" in the Prospectus. As at the date of this annual report, approximately US$1 million has been used as general working capital. The Group has deposited the remaining unused proceeds with licensed banks in Hong Kong and Singapore.

Merger and Acquisition

For the year ended 31 December 2011, no material acquisition or disposal of subsidiaries or associates was made by the Group.

Significant investment

For the year ended 31 December 2011, the Group had no significant investment.

PROSPECTS

After our successfully listing on the Hong Kong Stock Exchange in 2011, 2012 will be a new starting point for Technovator as well as an important year for us to move towards a higher goal.

As mentioned in the Chairman Statement section of this report, as one of the leading providers of building energy management solution services in the PRC with global footprint around the world, we are facing both opportunities such as the enormous market demand being posed by the rapid growth of China's building energy management market, and challenges such as to sustain our business growth in our overseas market under the uncertain economic environment in the United States and Europe. In view of these, the Group will capture the development opportunities in the industry, optimize its strategy and dedicate to steadily enhance its overall result and escalate its business to the next level through the execution of the following:

Pursue product and technology purchase opportunities, strategic acquisitions and alliances

The Directors are continually and actively evaluating opportunities to acquire or ally with companies which would in return allow the Group to broaden its products offerings and enable the Group to ally with companies with innovation capability as well as new technological expertise. The Group continues to explore any acquisition opportunities in (i) complementary product areas that will allow the Group to capitalize on its extensive network of distributors and research and development capabilities, (ii) strategic acquisitions of businesses and assets that will complement its business, and (iii) potential international acquisitions, partnerships or licensing opportunities to provide technologies, and brands or distribution capabilities that will complement its expansion strategy.

Continue to strengthen and expand our global sales and distribution network

The global building energy management industry is undergoing different changes and development among different countries. In China, the growth of building energy management market is becoming faster under the support of various Governments' energy policies and the speedy urbanization of second and third tier cities. In our major overseas market, Canada, France and the United States, our in-depth distribution network becomes even more important in order to sustain stable business growth under the uncertain economic environment in those countries. The Directors believe that strong and in-depth marketing network is one of the key driving forces of our business growth. Therefore the Group will continue to invest resources in its global sales and marketing network, steadily develop its marketing network, in order to strengthen the competitive advantages among the industry. In addition, the Group will continue to explore investment opportunities and expand additional distribution network in order to further enhance our products coverage internationally. Furthermore, the Group will continue to recruit experienced sales talents and strengthen the training to its sales team in order to build up a marketing team that is energetic and knowledgeable with expertise in the industry so as to deliver professional and passionate services to our customers. With all these efforts to build and expand our strong and in-depth distribution network, we believe that it will help to drive the Group's sales among different countries, expand our market share and further enhance Technovator's the leading position around the world as well as its sustainable development.

Continue to invest in research and development in order to enhance the competitiveness of our products and solutions and expand our product and solutions portfolio

Being a high-technology building energy management solution provider, the Directors believe that one of the key elements for the success of the Group is attributable to its continuous investment in globalized research and development capability and improving the products and solutions and technical capabilities and develop new and innovative next-generation products and solutions offerings to the market. Currently the Group has three research and development centers located in Beijing of the PRC, Brossard of Canada and Brindas of France. By the end of 2011, the Group has invested US$6.7 million which represented 6.9% of its revenue in its research and development forces. In the future, the Group will maintain same level of investment in research and development or increase the investment ratio when considering the market changes from time to time, in order to achieve the upgrading of high-end technology and speed up the development of industry to increase its influence. In addition, the Group will further enhance the cooperativeness among our three research and development centers in planning and implementing the Group's short-term and long-term research and development pipeline so as to further enhance our technical strength and our products competitiveness in our global market.

Management Discussion and Analysis

Last but not least, in order to strengthen its competitiveness in the market, the Group will continue to strengthen cooperation with universities and institutions, establish research centers to research and develop leading new products and new technologies as well as strengthen its solution capability. One of the collaboration is that the Group has established relationships with Tsinghua University (清華大學), one of the leading universities in the PRC, to work together in researching and developing new technology in energy efficiency matters. Under such collaboration, the Group contributes its technology while the universities contribute human resources and research and development facilities. The Board believes these research institutions enjoy wellregarded academic reputations, and the Group's long-term relationships with these universities and institutions will enable it to stand at the forefront of and to keep abreast of the latest trends and developments in the energy management and building automation industry.

Continue to enhance its brand recognition and market position globally

Currently, Technovator operates its business all over the world through two well-recognized brands namely "Techcon" for China market and "Distech Controls" for overseas market. Over the past years, these two brands received many industry awards such as Intelligent Building Management System Excellent Brand Award and AHR Expo Innovation Honorable Award which proved that the Group's brands are fully recognized in the industry.

In order to further enhance our brand recognition and the market penetration of our products and solutions, we plan to (i) solidify our brands through deepening its existing strong sales channels, (ii) expand our coverage through establishing new marketing networks in countries in which the Group expects a relatively high economic growth, (iii) strengthen demand from new and existing end-user markets through introducing our high-quality building energy management solutions to the market and providing the superior-performance, innovative and advanced product portfolio to end-user as well as woking out plans for energy optimization in order to reduce the cost, and (iv) form alliances with strategic distribution partners and system integrators who have effective global distribution networks in order to increase our market coverage.

Continue to promote building energy saving concept in order to capitalize business opportunities and sustains its business growth

Folowing the increasing awareness of energy conservation and pollution reduction as well as environment protection around the world, greater attention on energy management, energy conservation and consumption reduction by the governments all over the world, and indication from the "12th five-year plan"concerning building energy conservation in the PRC, actively promoting energy conservation and consumption reduction as well as achieving green growth have become social consensus and development trends. The Directors believe there exists a multitude of business opportunities in the building energy management and environmental awareness sectors. As such, as one of the leading domestic providers and one of the key international players in the building energy management industry, the Group will continue to actively participate in different kind of industry academic forums, industry development committees and industry associations, and capture market opportunities arising from related policy, in order to contribute for the promotion of building energy management concept. Throughout these activities, the Group will be able to not only continue to keep abreast of market condition and upcoming industry policies but also highlight the environmentally-friendly features and benefits of its building energy management solutions.

We believe that as the awareness of energy conservation and pollution reduction increase, the demand for building energy saving products and solutions will further increase, which will consolidate the Group's business growth.

With the strategies above, we believe we can grasp the opportunities and turn the challenges to opportunities with our philosophy of continual innovation and high technology and move forward with passion and ultimately becoming a world-class enterprise for greater achievements and results so as to generate excellent returns to our Shareholders.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Xiaobo (趙曉波), aged 42, is an executive Director and chief executive officer of the Company, responsible for overall strategic planning and general management of the Group. He joined the Group in May 2005 and was appointed a Director on 26 May 2005 and was re-designated as an executive Director on 12 April 2011. Apart from being the general manager of Technovator Beijing, Mr. Zhao is also an assistant to the president of Tongfang and a general manager of "Digital City" Division of Tsinghua Tongfang Co., Ltd (同方股份有限公司, formerly known as Tsinghua Tongfang Company Limited (清華同方股份有限公司)) ("Tongfang"). Mr. Zhao received his Bachelor's degree in Thermal Engineering from Tsinghua University in 1993 and Executive Master of Business Administration from Tsinghua University in 2005. Mr. Zhao was qualified as professor and researcher level senior engineer (教授研究員級高級工程師) by the Human Resource and Social Security Department of Liaoning Province (遼寧省人力資源和社會保障廳) in 2009 and was appointed as the vice-chairman of Intelligent Building Branch of China Construction Industry Association (中國建築業協會智能建築分會) in April 2010.

Mr. Zhao joined the Beijing Tsinghua Artificial Environmental Engineering Co. (清華人工環境工程公司) in 1993 and worked in various departments related to environmental protection, responsible for research and development, business strategies, and planning. He had participated in many "intelligent building" projects, such as projects with the Beijing Hotel in the PRC and the Tehran Metro in Tehran, Iran. Mr. Zhao and such projects that he was involved in received various awards including the building low-carbon technology innovation award issued by Ministry of Science and Technology of the PRC (中華人民共和國科學技術部).

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Seah Han Leong (謝漢良), aged 48, is a founder, an executive Director and chief operating officer of the Company, is responsible for the day-to-day operations and general management of the Group. He was appointed a Director on 25 May 2005 and was re-designated as an executive Director on 12 April 2011. Mr. Seah received a certificate for attending the INSEAD-T.A.C. Management Development Program from INSEAD Fontainbleau, France in 2003 and Technician Diploma in Electronics and Communication Engineering from Singapore Polytechnic in 1984.

Prior to founding the Company, Mr. Seah joined Honeywell Southeast Asia in 1990 and worked in various sales management positions covering different countries. In 1994, he was transferred to Honeywell China Inc. and his last position with Honeywell was the sales manager covering the Greater China market. He was also the managing director of TAC Controls Asia Pte Ltd from 1998 to 2005. Mr. Seah was recognized as the key personnel of the Asia Pacific management team of TAC Controls Asia Pte Ltd. He received various awards including Winners Club Award by Honeywell Asia Pacific Inc. and President's Club Award by Honeywell Inc.

NON-EXECUTIVE DIRECTORS

Mr. Lu Zhicheng (陸致成), aged 63, is the chairman of the Company and a non-executive Director and is responsible for the strategic planning, management, investment, and governmental relation of the Group. He joined the Group in December 2005 and was appointed a Director on 19 December 2005 and was re-designated as a non-executive Director on 12 April 2011. Mr. Lu received a Bachelor's and a Master's degree in Thermal Engineering from Tsinghua University in 1977 and 1983 respectively. He started his professional career with Tsinghua University in scientific research relating to computer-controlled artificial environment.

Mr. Lu was the general manager of Beijing Tsinghua Artificial Environmental Engineering Co. which was established in 1989. In 1997, this company was restructured with some other companies held by Tsinghua University and formed Tongfang. Tongfang has been listed on the Shanghai Stock Exchange since 27 June 1997. Mr. Lu is currently the vice-chairman of the board of directors of Tongfang and the president of Tongfang in charge of the high-level management functions including strategic planning, financing, investment and coordination with the government authorities.

Mr. Lu also serves as the chairman of Tellhow Sci-Tech Co. Ltd, a company whose shares have been listed and traded on the Shanghai Stock Exchange since 1996, and a non-executive director of CIAM Group Limited, a company whose shares have been listed and traded on the Main Board of the Stock Exchange since 15 July 2009.

NON-EXECUTIVE DIRECTORS

Dr. Li Jisheng (李吉生), aged 46, is a non-executive Director. He joined the Group in December 2005 and was appointed a Director of the Company on 19 December 2005 and was re-designated as a non-executive Director on 12 April 2011. He is also a vice president of Tongfang since September 2002. Dr. Li received his Bachelor's degree from Tsinghua University in 1988, a Master's degree in Thermal Engineering from Tsinghua University in 1991, and a Doctor of Philosophy degree in Thermal Engineering from Tsinghua University in 1994. He became an assistant professor in Tsinghua University in 1996.

Dr. Li joined Tongfang in 1997. In 2001, he was appointed as the assistant to the president of Tongfang. In September 2002, Dr. Li took the position of vice president and general manager of Tongfang, and was responsible for the establishment of integrated marketing system and distribution channel system for Tongfang. Dr. Li is currently the chief engineer of Tongfang since June 2010.

Mr. Liu Tianmin (劉天民), aged 50, was appointed as a non-executive Director on 8 September 2011. Mr. Liu had over eight years of experience in strategic investments and portfolio management. In March 2003, he was appointed as the vice president and general manager of "Digital TV System" Division, one of the divisions of Tongfang. Such division stresses on enhancing technological products and services on digital television network and Mr. Liu was responsible for strategic investment and management of extensive portfolio of companies with business covering information technology, new media, internet, broadcasting services, telecommunication and information technologies equipment such as Beijing Tongfang Ehero Co., Ltd (北京同方易豪科技有限公司), Beijing Tsinghua Tongfang Innovative Investment Co., Ltd. (北京同方創新投資有限公司), Know China International Holdings Limited (知網國際控股有限公司), Beijing Tongfang Legend Silicon Tech. Co., Ltd (北京同方淩訊科技有限公司) and Beijing Tongfang Gigamega Tech Co., Ltd (北京同方吉兆科技有限公司).

Mr. Liu left Tongfang in 2009 and subsequently joined SB China Venture Capital (軟銀中國創業投資有限公司) as Managing Partner in November 2009. Established in 2000, SB China Venture Capital is a one of the top 10 venture capital firms in China as ranked by CNBWeekly in 2009. Mr. Liu's previous experience in investing in technological fields has allowed him to manage SBCVC's related funds.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Ng Koon Siong (黃坤商), aged 47, was appointed as a Director on 1 January 2011 and was re-designated as a non-executive Director on 12 April 2011. Mr. Ng was also a Director from 1 February 2008 to 4 March 2010 appointed by Zana as its representative on the Board and was replaced by Mr. Chan Hock Eng from 5 March 2010 to 31 December 2010 in accordance with the internal policy of Zana. Mr. Ng received his Bachelor of accountancy degree from the National University of Singapore in June 1989.

Mr. Ng had over 10 years of experience in Asian private equity and venture capital, corporate banking and finance. Prior to joining the Group, he was the senior vice president at GIC Special Investments Pte Ltd and investment manager at Seavi Venture Services Pte. Ltd.

Ms. Shi Shanshan (施珊珊), aged 30, was appointed as a Director on 5 March 2010 and was re-designated as a non-executive Director on 12 April 2011. Ms. Shi Shanshan is a Director appointed by CTC Capital as its representative on the Board and replaced Mr. David Chow Dah-Jen on 5 March 2010. Ms. Shi received her Bachelor of Life Science degree in Biology, major in Biotechnology from Xiamen University in 2003 and a Master of Science degree in Management from Loughborough University in 2006.

Ms. Shi had around four years of experience in investment. Ms. Shi has been an investment manager of CTC Capital since 2009. Prior to joining the Group, Ms. Shi was an associate at the investment department of Tongfang from 2007 to 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Ren Da Anthony (范仁達), aged 51, was appointed as an independent non-executive Director on 8 September 2011. He received his Master of Business Administration degree from the University of Dallas in 1986.

Mr. Fan has previously held senior positions with various international financial institutions and has gained extensive experience in reviewing and analyzing financial statements of public and private companies. He serves/has served as a director and held managerial positions in the following companies:

December 1994 – present	Raymond Industrial Limited, listed on the Stock Exchange	Independent non-executive Director, and member of the audit, nomination and remuneration committees
August 2000 – present	CITIC Resources Holdings Limited, listed on the Stock Exchange	Independent non-executive Director, chairman of the audit committee, and member of nomination and remuneration committees
August 2007 – present	Shenzhen World Union Properties Consultancy Co., Ltd., listed on Shenzhen Stock Exchange	Independent non-executive Director
August 2007 – present	Uni-President China Holdings Ltd., listed on the Stock Exchange	Independent non-executive Director and chairman of the audit committee
July 2008 – June 2011	Chinney Alliance Group Limited, listed on the Stock Exchange	Independent non-executive Director and member of the audit committee
August 2008 – present	Renhe Commercial Holdings Company Limited, listed on the Stock Exchange	Independent non-executive Director and chairman of the audit committee
September 2008 – present	Hong Kong Resources Holdings Company Limited, listed on the Stock Exchange	Independent non-executive Director, chairman of remuneration committee, and member of audit and nomination committees,
July 2010 – present	Shanghai Industrial Urban Development Group Limited, listed on the Stock Exchange	Independent non-executive Director, and member of the audit, nomination and remuneration committees
May 2011 – present	AsiaLink Capital Limited	Chairman and managing director
August 2011 – present	Tenfu (Cayman) Holdings Company Limited, listed on the Stock Exchange	Independent non-executive Director, chairman of remuneration committee, and member of audit and nomination committees,
September 2011 – present	Guodian Technology & Environment Group Corporation Limited	Independent non-executive Director and chairman of audit committee

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chia Yew Boon (謝有文), aged 53, was appointed as an independent non-executive Director on 8 September 2011. He received his Diploma of Engineer from Université Louis-Pasteur Strasbourg-I, France in July 1983.

Before entering the financial sector, Mr. Chia worked for the Economic Development Board of the Singapore government in various capacities from 1985 to 1990. He then spent eight years in equity research and corporate finance with regional investment banks from 1990 to 1998. From 1999 to 2005, Mr. Chia served as the senior vice president at GIC Special Investments Pte Ltd, a subsidiary of the Government of Singapore Investment Corporation. From 2005 to 2007, he was the chief executive officer of EasyCall International Ltd, a company which was previously listed on the ASX Limited (Australian Securities Exchange) and Singapore Stock Exchange Limited, and a director of strategic planning at Boustead Singapore Limited, an engineering and information technology services company whose shares are listed and traded on the Singapore Stock Exchange Limited. Since April 2007, he has been an independent private equity and venture capital consultant.

Ms. Chen Hua (陳華), aged 46, was appointed as an independent non-executive Director on 8 September 2011. Ms. Chen received a Bachelor's degree in science from New York University in 1988, and a Master's degree in Science with major in taxation from Fordham University in 1992. She has been a managing partner of SB China Venture Capital (軟銀中國創業投資有限公司) since 2010 and is currently the chief financial officer of SB China Venture Capital. Ms. Chen was a director in the asset management division of Credit Suisse from 25 September 2000 to 31 December 2009.

SENIOR MANAGEMENT

Mr. Zhao Xiaobo (趙曉波), please refer to the details set out above under the paragraph headed “Executive Directors”.

Mr. Seah Han Leong (謝漢良), please refer to the details set out above under the paragraph headed “Executive Directors.

Mr. Leung Lok Wai (梁樂偉), aged 36, is the chief financial officer of the Group and a joint company secretary of the Company. He joined the Group in June 2010. Mr. Leung received his Bachelor’s degree in accountancy from the Hong Kong Polytechnic University in December 1999. He is a member of Hong Kong Society of Accountants and a member of the Institute of Internal Auditors. Before joining the Group, Mr. Leung had over 10 years of experience in accounting, auditing and due diligence, including transaction services in PricewaterhouseCoopers, group internal audit in Swire Group and audit assurance services in KPMG.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Étienne Veilleux, aged 42, is the founder of Distech Controls and served as the president and chief executive officer of Distech Controls since 1995. He attended the University of Western Ontario's Richard Ivey School of Business, Canadian Quantum Shift program in 2009 and he became a Fellow of Quantum Shift. From May 2008 to September 2009, Mr. Veilleux served at the board of directors of LONMARK International and was a sponsor of the same since 2005. He is a member of the Young Presidents' Organization and the Entrepreneur Organization in Montreal. Mr. Veilleux had over 17 years of experience in building automation, energy savings and new product development.

JOINT COMPANY SECRETARIES

Mr. Leung Lok Wai (梁樂偉), please refer to the details set out above under the paragraph headed "Senior Management".

Ms. Tan Siew Hua (陳秀華), aged 51, was appointed as a joint company secretary of the Company on 15 March 2012. She is a member of The Singapore Association of the Institute of Chartered Secretaries & Administrators. Ms. Tan Siew Hua is currently serving as a manager of Tricor Singapore Pte Ltd.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group are principally engaged in the design, manufacturing and distribution of integrated building automation and energy management systems. In addition, the Group provides products and solutions for control security and fire alarm systems.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in note 16 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 46 to 114 of this annual report.

DIVIDENDS

The Company has not declared and paid any dividend during the year ended 31 December 2011. The Board does not recommend any final dividend for the year ended 31 December 2011.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2011, the Company does not have reserves available for distribution to equity shareholders. Details of the reserves of the Company as at 31 December 2011 are set out in note 25 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2011 amounted to approximately USD1,300 (2010: USDNil).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2011 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2011 are set out in note 25 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2011 were:

Executive Directors

Mr. Zhao Xiaobo	(appointed as a Director on 26 May 2005 and re-designated as an executive Director on 12 April 2011)
Mr. Seah Han Leong	(appointed as a Director on 25 May 2005 and re-designated as an executive Director on 12 April 2011)

Non-Executive Directors

Mr. Lu Zhicheng *(Chairman)*	(appointed as a Director on 19 December 2005 and re-designated as a non-executive Director on 12 April 2011)
Dr. Li Jisheng	(appointed as a Director on 19 December 2005 and re-designated as a non-executive Director on 12 April 2011)
Mr. Liu Tianmin	(appointed as a non-executive Director on 8 September 2011)
Mr. Ng Koon Siong	(appointed as a Director on 1 January 2011 and re-designated as a non-executive Director on 12 April 2011)
Ms. Shi Shanshan	(appointed as a Director on 5 March 2010 and re-designated as a non-executive Director on 12 April 2011)

Independent Non-Executive Directors

Mr. Fan Ren Da Anthony	(appointed as an independent non-executive Director on 8 September 2011)
Mr. Chia Yew Boon	(appointed as an independent non-executive Director on 8 September 2011)
Ms. Chen Hua	(appointed as an independent non-executive Director on 8 September 2011)

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive, non-executive and independent non-executive Directors on the Board during the year ended 31 December 2011 had entered into a service contract with the Company for an initial term of one year, commencing from 27 October 2011 and thereafter may be terminated by either party upon a three-month prior written notice. The service contracts are automatically renewed upon expiration.

In accordance with article 104 of the Company's articles of association, Mr. Zhao Xiabo, Mr. Seah Han Leong and Mr. Ng Koon Siong will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 19 to 26 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2011.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, 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 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 for Securities Transactions of Directors of Listed Issuers (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 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 options under the Technovator Employee Share Option Scheme 2009.

(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.

Report of the Directors

Save as disclosed above, as at 31 December 2011, 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).

PRE-IPO SHARE OPTION SCHEMES

The Group has adopted the following Pre-IPO share option schemes (collectively, "Pre-IPO Share Option Schemes") to enable its 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 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 the long term growth and profitability of the Group. 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.

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.

(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.

As at 31 December 2011, 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 as at 31 December 2011.

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.

Other than 150,000 options exercised by Johan Schkenraad at an exercise price of CAD$0.60 per option on 19 May 2011 (150,000 Class B Common Shares of Distech Controls issued pursuant to the exercise of such options have been repurchased by Distech Controls at a consideration of CAD$1.45 per share), none of the options granted under the Distech Controls Stock Option Plan has been exercised as at 31 December 2011.

Save as disclosed above, no options granted under the Pre-IPO Share Option Schemes were exercised, lapsed or cancelled during the year ended 31 December 2011.

Further details of the Pre-IPO Share Option Schemes are set out in note 23 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Pre-IPO Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

Report of the Directors

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 31 December 2011, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of 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
Tongfang	Beneficial owner	92,000,000	18.96%
	Interest in a controlled corporation(1)	80,000,000	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) Tongfang 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 31 December 2011, 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.

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 year ended 31 December 2011.

CONTINUING CONNECTED TRANSACTIONS

Connected persons

(a) Tongfang Co., Ltd. ("Tongfang"): Tongfang is a controlling shareholder of the Company (the "Controlling Shareholder") and is therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

(b) La Société IMMO Delta B: La Société IMMO Delta B is wholly-owned by five individuals and entities who together hold approximately 63.65% of Groupe Arcom. Groupe Arcom is a substantial shareholder of a subsidiary of the Company, Distech Controls, and holds approximately 11.14% of its issued shares. Accordingly, the Directors consider it appropriate to treat La Société IMMO Delta B as a connected person of the Company upon the listing of its shares on the Main Board of the Stock Exchange.

The continuing connected transactions

1. *PRC office lease from Tongfang to Tongfang Technovator Int (Beijing) Co., Ltd (同方泰德國際科技(北京)有限公司) ("Technovator Beijing")*

   On 15 August 2009, Technovator Beijing and Tongfang entered into a lease ("PRC Office Lease") which was amended on 14 September 2011, pursuant to which Technovator Beijing leased an office in Beijing with a gross floor area of up to 700 square meters from Tongfang for a period of five years from 1 September 2009 to 31 August 2014.

   The rent payable by Technovator Beijing to Tongfang was RMB152.78 per square meter per month (inclusive of management fee and electricity charges), which is determined with reference to the prevailing market rent. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the rent payable under the PRC Office Lease is comparable to the prevailing market rate and is fair and reasonable.

   For the year ended 31 December 2011, the rent paid by Technovator Beijing to Tongfang was RMB1,299,000, which was within the approved cap of RMB1.3 million as disclosed in the prospectus of the Company.

2. *Industrial building lease from La Société IMMO Delta B to Comtec*

   On 25 June 2007, La Société IMMO Delta B and Distech Controls S.A.S. ("Comtec") entered into an industrial building lease ("Comtec Lease"), pursuant to which Comtec leased space in a building located in Brindas, France from La Société IMMO Delta B for a period of nine years from 1 July 2007 to 30 June 2016. The lease was amended to increase the rental space and the rent payable. The lease now covers a gross floor area of approximately 1,004 square meters, together with the right to 20 parking spaces from La Société IMMO Delta B. The rent payable by Comtec to La Société IMMO Delta B was EUR84,000 per annum from 1 July 2007 to 30 September 2009, and EUR105,600 per annum from 1 October 2009 to 30 June 2016. The rent is determined with reference to the prevailing market rent. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the rent payable under the Comtec Lease is comparable to the prevailing market rate and is fair and reasonable.

   For the year ended 31 December 2011, the rent payable by Comtec to La Société IMMO Delta B was in the amount of EUR105,600, which was within the approved cap of EUR105,600 as disclosed in the prospectus of the Company.

Report of the Directors

3. *Sales of products to Tongfang from Technovator Beijing and such other parties procured by Technovator Beijing and agreed by Tongfang*

   On 9 February 2011, Technovator Beijing and Tongfang entered into a sales agreement ("Sales Agreement") which was amended on 19 August 2011, pursuant to which Technovator Beijing agreed to sell or procure such other parties agreed by Tongfang to sell integrated building automation and energy management systems to Tongfang for a period of three years from 9 February 2011 to 8 February 2014. The prices at which Technovator Beijing sells such products to Tongfang will be based on terms that are comparable to those available to independent third parties of the Company (the "Independent Third Parties") and after arm's length negotiation on normal commercial terms.

   For the year ended 31 December 2011, the Group sold products to Tongfang, its subsidiaries and their respective associates in the amount of approximately RMB70 million, which was within the approved cap of RMB73 million as disclosed in the prospectus of the Company.

4. *Purchase of raw materials from Tongfang and such other parties procured by Tongfang and agreed by Technovator Beijing to Technovator Beijing*

   On 9 February 2011, Technovator Beijing and Tongfang entered into a purchase agreement ("Purchase Agreement") which was amended on 19 August 2011, pursuant to which Tongfang agreed to sell or procure such other parties agreed by Technovator Beijing to sell cables and peripheral equipments to Technovator Beijing every three years from 9 February 2011 to 9 February 2014. The prices at which Tongfang and its subsidiaries sell such raw materials to Technovator Beijing will be based on terms that are comparable to those available to the Independent Third Parties and after arm's length negotiation on normal commercial terms. Such raw materials are being utilized by Technovator Beijing in the production process as part of the materials or components required to produce the Group's products.

   For the year ended 31 December 2011, the Group purchased such raw materials from Tongfang, its subsidiaries and their respective associates in the amount of approximately RMB12,969,000, which was within the approved cap of RMB13 million as disclosed in the prospectus of the Company.

   The independent non-executive directors of the Company have reviewed these connected transactions and confirmed that such transactions were:

   (i) entered into in the ordinary and usual course of business of the Group;

   (ii) conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from Independent Third Parties; and

   (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Other than the continuing connected transactions set out above, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2011.

NON-COMPETE UNDERTAKINGS

Each of the Controlling Shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the prospectus of the Company dated 17 October 2011). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the Controlling Shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2011 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of Singapore where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has adopted two Pre-IPO Share Option Schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Pre-IPO Share Option Schemes" above and note 23 to the financial statements.

None of the Directors waived any emoluments during the year.

Report of the Directors

PENSION SCHEME

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

For the Group's subsidiaries in countries other than the PRC, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 11.4% (2010: 7.1%) and 25.9% (2010: 27.2%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 6.2% (2010: 12.1%) and 18.5% (2010: 34.6%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2011, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

KPMG will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2011.

BANK LOANS

Details of bank loans of the Group as at 31 December 2011 are set out in note 22 to the financial statements.

FOUR-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 7 of this annual report.

On behalf of the Board

Lu Zhicheng
Chairman

Hong Kong, 21 March 2012

Corporate Governance Report

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

CODE OF CORPORATE GOVERNANCE PRACTICES ("CORPORATE GOVERNANCE CODE")

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules effective since its adoption by the Company from 8 September 2011 and throughout the year ended 31 December 2011. The Company has complied with such code provisions during the year ended 31 December 2011.

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted a revised Corporate Governance Code ("New Corporate Governance Code") on 21 March 2012.

BOARD OF DIRECTORS

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises ten Directors, consisting of two executive Directors, five non-executive Directors and three independent non-executive Directors. The Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. To the best knowledge of the Company, there is no financial, business or family relationship among the members of the Board.

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

The Directors have been informed of the requirement under Code Provision A.6.5 of the New Corporate Governance Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules effective since its adoption by the Company from 8 September 2011 and throughout the year ended 31 December 2011 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 during the year ended 31 December 2011.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and the chief executive officer are segregated. Mr. Lu Zhicheng is the chairman of the Company. Mr. Zhao Xiaobo is the chief executive officer of the Company. The chairman is responsible in leading the Board in forming the Group's strategies and policies and for organizing the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The chief executive officer is directly in charge of the daily operations of the Group and is accountable to the Board for the financial and operational performance of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Fan Ren Da Anthony, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Corporate Governance Report

MEETINGS

The Board meets regularly either in person or through electronic means of communications. The number of the Board and Board committee meetings held and the attendance of each Director at these meetings for the year ended 31 December 2011 are set out as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held	3	–	–	–
No. of meetings attended				
Executive Directors				
Mr. Zhao Xiaobo	3	N/A	N/A	N/A
Mr. Seah Han Leong	3	N/A	N/A	–
Non-Executive Director				
Mr. Lu Zhicheng *(Chairman)*	3	N/A	N/A	N/A
Dr. Li Jisheng	3	N/A	N/A	N/A
Mr. Liu Tianmin	2	N/A	N/A	N/A
Mr. Ng Koon Siong	3	N/A	–	N/A
Ms. Shi Shanshan	3	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Fan Ren Da Anthony	2	–	–	–
Mr. Chia Yew Boon	2	–	–	–
Ms. Chen Hua	2	–	N/A	N/A

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the joint company secretaries of the Company at all times and may seek independent professional advice at the Company's expense. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the Articles, as well as relevant rules and regulations.

JOINT COMPANY SECRETARIES

During the year under review, the joint company secretaries of the Company were Mr. Leung Lok Wai, Mr. Luk Chiew Peng and Mr. Koh Kok Ong. Subsequent to year-end, Mr. Luk Chiew Peng and Mr. Koh Kok Ong tendered resignation on 15 March 2012, and Ms. Tan Siew Hua was appointed as a joint company secretary on the same date. Details of the biographies of Mr. Leung Lok Wai and Ms. Tan Siew Hua (collectively, the "Joint Company Secretaries") are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. The Joint Company Secretaries have been informed of the requirements under Rule 3.29 of the Listing Rules and their compliance with such requirement for the year ending 31 December 2012 will be reported in the corporate governance report in the 2012 annual report of the Company.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles. The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. For more details of the service contract of each of the Directors, please refer to the section headed “Report of the Directors” of this annual report.

BOARD COMMITTEES

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference which are in line with the code provisions of the Corporate Governance Code. For the purpose of complying with the New Cooperate Governance Code adopted by the Company on 21 March 2012, the Board has adopted revised terms of reference for (i) audit committee, (ii) remuneration committee; and (iii) nomination committee on 21 March 2012. The terms of reference of the board committees which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company’s expenses.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 8 September 2011 in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee currently consists of three members, namely, Ms. Chen Hua, Mr. Fan Ren Da Anthony and Mr. Chia Yew Boon, all of whom are independent non-executive Directors. Ms. Chen Hua, who has appropriate professional qualifications and experience in accounting matters, is the chairman of the audit committee.

No meeting was held by the audit committee during the year ended 31 December 2011 because the Company has just listed in October 2011 and the audit committee considers that it is not necessary to discuss the appointment and removal of external auditors, make material advice in respect of financial reporting, and oversee the internal control procedures of the Company, accordingly, no meeting was held by the audit committee for the period from the listing date to 31 December 2011. Up to the date of this annual report, one meeting of the audit committee was held on 21 March 2012.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 8 September 2011 with written terms of reference. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review remuneration, and ensure none of the Directors determine their own remuneration. The remuneration committee currently consists of three members, namely,, Mr. Chia Yew Boon and Mr. Fan Ren Da Anthony (both are independent non-executive Directors) and Mr. Ng Koon Siong (a non-executive Director). Mr. Fan Ren Da Anthony is the chairman of the remuneration committee.

Corporate Governance Report

No meeting was held by the remuneration committee during the year ended 31 December 2011 because the Company has just listed in October 2011 and the remuneration committee considers that it is not necessary to discuss overall remuneration policy and structure relating to all Directors and senior management of the Company, accordingly, no meeting was held by the remuneration committee for the period from the listing date to 31 December 2011. Up to the date of this annual report, one meeting of the remuneration committee was held on 21 March 2012.

NOMINATION COMMITTEE

The Company established a nomination committee on 8 September 2011 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee currently consists of three members, namely, Mr. Fan Ren Da Anthony, and Mr. Chia Yew Boon (two independent non-executive Directors) and Mr. Lu Zhicheng (a non-executive Director),. Mr. Chia Yew Boon is the chairman of the nomination committee.

No meeting was held by the nomination committee during the year ended 31 December 2011 because the Company has just listed in October 2011 and most of the present Directors were appointed in 2011. Accordingly, the nomination committee considers that it is not necessary to review the structure, size and composition of the Board and identify any new Board member, accordingly, no meeting was held by the nomination committee for the period from the listing date to 31 December 2011.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the New Corporate Governance Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2012 will be disclosed in the corporate governance report in the Company's 2012 annual report.

MEMORANDUMS AND ARTICLES OF ASSOCIATION

During the year ended 31 December 2011, the Shareholders have passed resolutions on 8 September 2011 approving the adoption of new memorandum and Articles which came into effect from 27 October 2011. Save as the aforesaid, there has been no significant change in the Company's constitutional documents.

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Group for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of KPMG, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

EXTERNAL AUDITORS' REMUNERATION

For the year ended 31 December 2011, apart from the provision of annual audit services, the Company's external auditors, KPMG, were also the reporting accountants of the Company in relation to the Listing. For the year ended 31 December 2011, the total fee paid/payable in respect of audit and non-audit services provided by the Company's external auditors is set out below:

	Sum HK$'000
Audit services	1,900
Non-audit services	110

INTERNAL CONTROLS

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. The Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group during the year under review.

The Board has identified specific issues for further assessment. As such, the Group has engaged an external service provider which has reported internal control fact findings to the Board. No major issues but areas for improvement have been identified. All of the recommendations from the Group's external service provider will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2011.

SHAREHOLDERS RIGHTS

How Shareholders can convene an extraordinary general meeting and put forward proposals at Shareholders' meetings

Under the Articles, Directors may in general, whenever they think fit, convene extraordinary general meetings. Under Section 176 of the Companies Act (Cap. 50) of Singapore (the "Singapore Companies Act"), however, directors of the Company must notwithstanding anything in its articles, on the requisition of shareholders holding not less than 10% of the total paid-up capital of a company at the date of the deposit of the requisition, immediately proceed to convene an extraordinary general meeting to be held as soon as practicable but in any case not later than 2 months after receipt by the company of the requisition. In addition to the said right of requisition, two or more shareholders holding not less than 10% of the total number of issued shares of a company (excluding treasury shares) may also call a meeting of the company.

Corporate Governance Report

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to Mr. Leung Lok Wai, a Joint Company Secretary by mail at the Company's principal place of business in Hong Kong or by email at paddy_leung@thtf.com.cn. Mr. Leung Lok Wai will forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The management endeavours to maintain effective communications with the Shareholders and potential investors.

The Company meets the Shareholders at the annual general meeting, publish interim and annual reports on the websites of the Company and the Stock Exchange, and release press releases on the Company's website to keep the Shareholders and potential investors abreast of the Group's business and development.

Independent Auditor's Report

KPMG

Independent auditor's report
to the shareholders of Technovator International Limited
(Incorporated in Singapore with limited liability)

We have audited the consolidated financial statements of Technovator International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 46 to 114, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

21 March 2012

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in United States dollars)

	Note	2011 US$'000	2010 US$'000
Revenue	3, 4	**97,513**	74,085
Cost of sales		**(61,118)**	(48,888)
Gross profit		**36,395**	25,197
Other revenue	5	**1,293**	1,433
Other net (loss)/gain	5	**(60)**	13
Selling and distribution costs		**(8,520)**	(6,720)
Administrative and other operating expenses		**(11,017)**	(8,798)
Research and development expenses		**(2,956)**	(1,945)
Profit from operations		**15,135**	9,180
Finance costs	6(a)	**(542)**	(541)
Profit before taxation		**14,593**	8,639
Income tax	7(a)	**(2,777)**	(1,459)
Profit for the year		**11,816**	7,180
Profit attributable to:			
Equity shareholders of the Company		**10,445**	7,049
Non-controlling interests		**1,371**	131
Profit for the year		**11,816**	7,180
Earnings per share	11		
Basic (US$)		**0.027**	0.019
Diluted (US$)		**0.026**	0.019

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in United States dollars)

	2011 US$'000	2010 US$'000
Profit for the year	**11,816**	7,180
Other comprehensive income for the year		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	**699**	1,192
Total comprehensive income for the year	**12,515**	8,372
Total comprehensive income attributable to:		
Equity shareholders of the Company	**11,179**	7,987
Non-controlling interests	**1,336**	385
Total comprehensive income for the year	**12,515**	8,372

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2011
(Expressed in United States dollars)

	Note	2011 US$'000	2010 US$'000
Non-current assets			
Property, plant and equipment	12	**3,431**	2,889
Intangible assets	13	**14,125**	13,352
Goodwill	14	**15,914**	15,713
Other financial assets	15	**–**	836
Deferred tax assets	24	**287**	100
		33,757	32,890
Current assets			
Inventories	17	**14,807**	10,448
Trade and other receivables	18	**31,136**	24,142
Gross amounts due from customers for contract work	21	**508**	52
Income tax recoverable		**–**	30
Cash and cash equivalents	19	**27,940**	15,243
		74,391	49,915
Current liabilities			
Trade and other payables	20	**26,562**	21,357
Gross amounts due to customers for contract work	21	**357**	310
Loans and borrowings	22(b)	**3,591**	9,344
Obligations under finance leases		**60**	119
Income tax payable		**1,064**	592
		31,634	31,722
Net current assets		**42,757**	18,193
Total assets less current liabilities		**76,514**	51,083
Non-current liabilities			
Loans and borrowings	22(b)	**3,382**	373
Obligations under finance leases		**27**	79
Deferred income		**87**	50
Deferred tax liabilities	24	**2,290**	2,222
		5,786	2,724
NET ASSETS		**70,728**	48,359

Consolidated Balance Sheet *(Continued)*

At 31 December 2011
(Expressed in United States dollars)

	Note	**2011 US$'000**	2010 US$'000
CAPITAL AND RESERVES			
Share capital	25	**33,786**	24,228
Reserves		**31,227**	19,708
Total equity attributable to equity shareholders of the Company		**65,013**	43,936
Non-controlling interests		**5,715**	4,423
TOTAL EQUITY		**70,728**	48,359

Approved and authorised for issue by the board of directors on 21 March 2012

	)	
Zhao Xiaobo	)	
	)	*Directors*
Seah Han Leong	)	
	)	

The accompanying notes form part of these financial statements.

Balance Sheet

At 31 December 2011
(Expressed in United States dollars)

	Note	2011 US$'000	2010 US$'000
Non-current assets			
Property, plant and equipment		**16**	3
Investments in subsidiaries	16	**20,682**	20,598
		20,698	20,601
Current assets			
Inventories		**91**	33
Trade and other receivables	18	**216**	2,073
Cash and cash equivalents	19	**10,585**	2,093
		10,892	4,199
Current liabilities			
Trade and other payables	20	**1,452**	2,630
		1,452	2,630
Net current assets		**9,440**	1,569
Total assets less current liabilities		**30,138**	22,170
Non-current liabilities			
Deferred income		**71**	–
NET ASSETS		**30,067**	22,170
CAPITAL AND RESERVES	25		
Share capital		**33,786**	24,228
Reserves		**(3,719)**	(2,058)
TOTAL EQUITY		**30,067**	22,170

Approved and authorised for issue by the board of directors on 21 March 2012

Zhao Xiaobo	)	
	)	*Directors*
Seah Han Leong	)	

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in United States dollars)

		Attributable to equity shareholders of the Company								
	Note	**Share capital** Note 25(c) US$'000	**Statutory reserves** Note 25(d)(i) US$'000	**Translation reserve** Note 25(d)(ii) US$'000	**Share-based compensation reserve** Note 25(d)(iii) US$'000	**Capital reserve arising from changes in ownership interests in subsidiaries** Note 25(d)(iv) US$'000	**Retained profits** US$'000	**Total** US$'000	**Non-controlling interests** US$'000	**Total equity** US$'000
Balance at 1 January 2010		24,228	645	(32)	306	(195)	5,389	30,341	3,409	33,750
Changes in equity for 2010:										
Profit for the year		–	–	–	–	–	7,049	7,049	131	7,180
Other comprehensive income		–	–	938	–	–	–	938	254	1,192
Total comprehensive income for the year		–	–	938	–	–	7,049	7,987	385	8,372
Equity settled share-based transactions		–	–	–	674	–	–	674	–	674
Issuance of shares by a subsidiary		–	–	–	–	4,934	–	4,934	482	5,416
Contributions from non-controlling interests		–	–	–	–	–	–	–	147	147
Appropriation to statutory reserves		–	804	–	–	–	(804)	–	–	–
Balance at 31 December 2010 and 1 January 2011		24,228	1,449	906	980	4,739	11,634	43,936	4,423	48,359
Changes in equity for 2011:										
Profit for the year		–	–	–	–	–	10,445	10,445	1,371	11,816
Other comprehensive income		–	–	734	–	–	–	734	(35)	699
Total comprehensive income for the year		–	–	734	–	–	10,445	11,179	1,336	12,515
Equity settled share-based transactions		–	–	–	340	–	–	340	–	340
Issuance of shares for initial public offering		15,693	–	–	–	–	–	15,693	–	15,693
Share issuance costs		(6,135)	–	–	–	–	–	(6,135)	–	(6,135)
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(44)	(44)
Appropriation to statutory reserves		–	1,075	–	–	–	(1,075)	–	–	–
Balance at 31 December 2011		33,786	2,524	1,640	1,320	4,739	21,004	65,013	5,715	70,728

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statements

For the year ended 31 December 2011
(Expressed in United States dollars)

	Note	2011 US$'000	2010 US$'000
Operating activities			
Profit before taxation		**14,593**	8,639
Adjustments for:			
Depreciation	6(c)	**722**	639
Amortisation of intangible assets	6(c)	**2,844**	2,088
Impairment losses on trade and other receivables	6(c)	**226**	560
Finance costs	6(a)	**542**	541
Interest income	5	**(29)**	(23)
Net gain on disposal of property, plant and equipment	5	**(11)**	(180)
Equity-settled share-based payment expenses	6(b)	**340**	674
Derecognition of contingent consideration		**–**	(73)
Foreign exchange loss		**(339)**	451
		18,888	13,316
Increase in inventories		**(4,359)**	(2,222)
Increase in trade and other receivables		**(6,384)**	(10,313)
Increase in trade and other payables		**5,205**	7,339
Change in gross amounts due from/to customers for contract work		**(409)**	(2,630)
Increase in deferred income		**37**	87
Cash generated from operations		**12,978**	5,577
Income tax refunded		**–**	71
Income tax paid		**(2,388)**	(1,171)
Net cash generated from operating activities		**10,590**	4,477
Investing activities			
Payments for the purchase of property, plant and equipment		**(1,411)**	(995)
Expenditure on purchase of intangible assets		**(3,766)**	(3,617)
Proceeds from sale of property, plant and equipment		**188**	263
Proceeds from sale of intangible assets		**261**	–
Interest received		**29**	23
Payment for the purchase of other financial assets		**–**	(200)
Payment for acquisition of subsidiaries	29	**(37)**	(5,259)
Net cash used in investing activities		**(4,736)**	(9,785)

Consolidated Cash Flow Statements *(Continued)*

For the year ended 31 December 2011
(Expressed in United States dollars)

	Note	2011 US$'000	2010 US$'000
Financing activities			
Proceeds from issuance of shares		**15,693**	–
Share issuance costs		**(6,135)**	–
Proceeds from loans and borrowings		**1,186**	9,165
Repayment of loans and borrowings		**(3,875)**	(3,328)
Capital element of finance lease rentals paid		**(111)**	(92)
Interest element of finance lease rentals paid		**(9)**	(12)
Contributions from non-controlling interests		**–**	147
Other borrowing costs paid		**(533)**	(529)
Net cash generated from financing activities		**6,216**	5,351
Net increase in cash and cash equivalents		**12,070**	43
Cash and cash equivalents at the beginning of the year		**15,243**	14,811
Effect of foreign exchange rate changes		**627**	389
Cash and cash equivalents at the end of the year	19	**27,940**	15,243

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 General information

Technovator International Limited (the "Company") was incorporated in Singapore on 25 May 2005 under the name of "Technovator Int Private Ltd." as an exempted company with limited liability under the Singapore Companies Act (Chapter 50). The name of the Company was changed to Technovator International Limited on 8 September 2011. The Company and its subsidiaries hereinafter are collectively referred to as the "Group". 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. The details of the subsidiaries directly or indirectly owned by the Company are set out in note 16.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

These financial statements are presented in United States Dollars ("US$"), rounded to the nearest thousand except for per share data, which is the functional currency of the Group's major operating units. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

2 Significant accounting policies *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity share holders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(o) and 2(p) depending on the nature of liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and to be tested annually for impairment (see note 2(k)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Significant accounting policies *(Continued)*

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

– Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 2(u)(iv) and (v).

– Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(k)).

– Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).

– Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of the reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(u)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(v). When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(h) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	The shorter of the remaining term of the lease or 5 years
– Furniture and fittings	5 to 10 years
– Computers and office equipment	3 to 10 years
– Plant and machinery	5 to 10 years
– Motor vehicles	5 to 10 years

When parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Expenditure on an internal research and development projects is distinguished between the expenditures during the research phase and expenditures during the development phase. Research activities involve original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development activities involve a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditure on research activities is recognised in profit or loss as incurred. Expenditure on development activities is capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

2 Significant accounting policies *(Continued)*

(i) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Other than trade name which has indefinite useful life, the following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Patents and technology know-how	5 years
–	Customer relationship	5–7 years
–	Non-compete agreements	2 years
–	Trade name	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries and associates (including those recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula, and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(u)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the financial statement. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the financial statement are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables".

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

2 Significant accounting policies *(Continued)*

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised costs unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, wages, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share-based compensation reserve within equity. The fair value is measured at grant date using the binomial option pricing model and/or Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to a business combination or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Significant accounting policies *(Continued)*

(s) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(t)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(t)(iii).

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(t) Provisions and contingent liabilities *(Continued)*

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and excluding value added tax or other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer which is taken to be the point in time when the final testing of goods is completed at the customers' premises and there is no continuing management involvement with the goods.

(ii) Service fee income

Service fee income is recognised when services are rendered to customers. For consulting service, the service fee income is recognised on a straight-line basis over the service period. For after-sales services, service fee income is deferred over the warranty period or when services are rendered to customers if the after-sales services are not covered by the warranty period.

(iii) Construction contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

2 Significant accounting policies *(Continued)*

(u) Revenue recognition *(Continued)*

(v) Interest income

Interest income from bank deposits is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Translation of foreign currency transactions

Foreign currency transactions during the year which are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss. Items included in the financial statements of each entity in the Group are measured using the Group's functional currency that best reflects the economic substance of the underlying events and circumstances to that entity whereby, the financial statements are presented in US$, which is the Company's functional currency.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations in the People's Republic of China ("PRC"), France, the Netherlands and Canada are translated from their respective functional currencies into US$ at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into US$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and presented separately in equity in the exchange reserves.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

2 Significant accounting policies *(Continued)*

(x) Related parties

For the purposes of these financial statements, a related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if:

(a) that person has control or joint control over the Group;

(b) that person has significant influence over the Group; or

(c) that person is a member of the key management personnel of the Group or of a parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group;

(b) the entity is an associate or joint venture of the Group or the Group is an associate or joint venture of the entity or of a member of a group of which the entity is a member;

(c) the entity and the Group are joint ventures of the same third party;

(d) the entity is a joint venture of a third entity and the Group is an associate of the same third entity, or vice versa;

(e) the entity is a post-employment plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly-controlled by a person identified in (i); or

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 the years ended 31 December 2010 and 2011 are as follows:

	2011 **US$'000**	2010 US$'000
Sales of goods	**85,095**	62,458
Provision of services	**4,371**	1,157
Contract revenue	**8,047**	10,470
	97,513	74,085

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 Financial Statements

(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), interest expense from borrowings managed directly by the segments, depreciation, amortisation and impairment losses. 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 year ended 31 December 2010 and 2011 is set out below:

	BAS – PRC		BAS – North America		BAS – Europe		BAS-Other countries		CSS – PRC		FAS – PRC		EMS – PRC		Total	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000	**2011 US$'000**	2010 US$'000
Revenue from external customers	**38,235**	31,499	**20,952**	19,748	**12,578**	8,074	**5,754**	668	**12,090**	7,935	**271**	545	**7,633**	5,616	**97,513**	74,085
Inter-segment revenue	**6,694**	131	**921**	599	**–**	–	**22**	–	**–**	–	**–**	–	**–**	–	**7,637**	730
Reportable segment revenue	**44,929**	31,630	**21,873**	20,347	**12,578**	8,074	**5,776**	668	**12,090**	7,935	**271**	545	**7,633**	5,616	**105,150**	74,815
Reportable segment profit/(loss)	**8,807**	6,217	**4,112**	3,435	**2,240**	145	**1,210**	(571)	**531**	261	**22**	41	**3,630**	3,164	**20,552**	12,692
Finance costs	**(87)**	(25)	**(420)**	(476)	**(35)**	(40)	**–**	–	**–**	–	**–**	–	**–**	–	**(542)**	(541)
Depreciation and amortisation for the year	**(411)**	(172)	**(2,140)**	(1,560)	**(832)**	(920)	**–**	(1)	**(111)**	(43)	**(2)**	(2)	**(70)**	(29)	**(3,566)**	(2,727)

4 Segment reporting *(Continued)*

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

	2011 US$'000	2010 US$'000
Revenue		
Reportable segment revenue	**105,150**	74,815
Elimination of inter-segment revenue	**(7,637)**	(730)
Consolidated revenue	**97,513**	74,085
Profit		
Reportable segment profit	**20,552**	12,692
Elimination of inter-segment profits	**(552)**	(159)
Reportable segment profit derived from Group's external customers	**20,000**	12,533
Depreciation and amortisation	**(3,566)**	(2,727)
Finance costs	**(542)**	(541)
Unallocated head office and corporate expenses	**(1,299)**	(626)
Consolidated profit before taxation	**14,593**	8,639

(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.

	2011 US$'000	2010 US$'000
Revenue derived from:		
PRC	**58,229**	45,787
United States	**18,691**	14,126
France	**7,833**	5,886
Canada	**2,261**	2,547
Switzerland	**1,687**	1,266
The Netherlands	**1,107**	2,638
Other countries	**7,705**	1,835
	97,513	74,085

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

5 Other revenue and net (loss)/gain

	2011 US$'000	2010 US$'000
Other revenue		
Interest income	**29**	23
Government grants (note (i))	**1,030**	708
Value added tax ("VAT") refunds (note (ii))	**233**	598
Others	**1**	104
	1,293	1,433

Notes:

(i) In 2010 and 2011, pursuant to the notice issued by the PRC tax bureau, one of the PRC subsidiaries of the Company is entitled to receive a government subsidy which is based on a certain percentage of the corporate income tax paid in the prior year by the PRC subsidiary in view of its high and new technology enterprise status.

(ii) VAT refunds represent the refunds of VAT paid on qualified sales of software products.

	2011 US$'000	2010 US$'000
Other net (loss)/gain		
Net gain on disposal of property, plant and equipment	**11**	180
Net exchange loss	**(60)**	(167)
Others	**(11)**	–
	(60)	13

6 Profit before taxation

Profit before taxation is arrived at after charging:

		2011 US$'000	2010 US$'000
(a)	**Finance costs**		
	Interest on loans and borrowings wholly repayable within five years	**532**	529
	Other financial costs	**10**	12
		542	541
(b)	**Staff costs**		
	Salaries and allowances	**7,931**	5,568
	Contributions to defined contribution retirement schemes	**1,493**	1,388
	Equity settled share-based payment expenses (note 23)	**340**	674
		9,764	7,630

Staff costs include directors' and senior management's remuneration (notes 8 and 28(d)).

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in a defined contribution retirement scheme (the "Scheme") organised by the local authorities whereby the subsidiaries are required to make contributions to the Scheme at a rate 20% of the eligible employees' salaries for year ended 31 December 2011 (2010: 20%). Contributions to the Scheme vest immediately.

For the Group's subsidiaries in countries other than the PRC, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Save for the above, the Group has no other material obligation for payment of retirement benefits beyond the contributions described above.

		2011 US$'000	2010 US$'000
(c)	**Other items**		
	Cost of inventories (note 17(b))	**55,674**	42,800
	Amortisation of intangible assets	**2,844**	2,088
	Depreciation	**722**	639
	Impairment losses on trade and other receivables	**226**	560
	Operating lease charges in respect of:		
	– motor vehicles, plant and machinery	**881**	562
	– properties	**221**	147
	Auditors' remuneration	**723**	128

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

7 Income tax

(a) Income tax in the consolidated income statements represents:

	2011 US$'000	2010 US$'000
Current tax		
Provision for the year	**2,869**	1,433
Over-provision in respect of prior years	**(18)**	(120)
	2,851	1,313
Deferred tax		
Origination and reversal of temporary differences (note 24(a))	**(74)**	146
	2,777	1,459

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:

	Note	2011 US$'000	2010 US$'000
Profit before taxation		**14,593**	8,639
Notional tax expense calculated at the corporate tax rate of the Company	(i)	**2,481**	1,469
Effect of rate differential of entities operating in different tax jurisdictions	(ii)	**1,597**	775
Tax effect on non-deductible expenses		**164**	327
Tax effect of non-taxable income		**(384)**	(137)
Effect of tax concession	(iii)	**(1,257)**	(952)
Tax effect of unused tax losses not recognised		**292**	158
Tax effect of utilisation of tax losses not recognised in prior years		**–**	(60)
Tax effect on recognition of previously unrecognised tax losses		**(96)**	–
Over-provision in prior years		**(18)**	(120)
Others		**(2)**	(1)
Actual income tax expense		**2,777**	1,459

7 Income tax *(Continued)*

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates: *(Continued)*

Notes:

(i) The Company is subject to Singapore corporate income tax at 17% for the year ended 31 December 2011 (2010:17%). No provision for Singapore income tax was made because the Company sustained tax losses for the years ended 31 December 2010 and 2011.

(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 year ended 31 December 2011 (2010:29.9%). 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%, 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 years ended 31 December 2010 and 2011. Distech U.S. was incorporated in the United States on 17 February 2010. 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%. 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.

(iii) Technovator Beijing was recognised as a high and new technology enterprise since 2008 for the period of three years from 2008 to 2010 and has renewed this status for the period of three years from 2011 to 2013, and is eligible to enjoy a preferential tax rate of 15% during these years.

(iv) The Group is not subject to Hong Kong corporate income tax during the years ended 31 December 2010 and 2011.

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(Expressed in United States dollars unless otherwise indicated)

8 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2010					
	Directors' fees US$'000	Salaries, allowances and benefits in-kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Share-based payments US$'000	Total US$'000
Executive directors						
Zhao Xiaobo	–	106	–	–	199	305
Seah Han Leong	–	149	–	7	199	355
Zhou Honbo (note (i))	–	60	–	–	–	60
Non-executive directors						
Lu Zhicheng	–	–	–	–	–	–
Li Jisheng	–	–	–	–	–	–
Ng Koon Siong (note (ii))	–	–	–	–	–	–
Shi Shanshan (note (iii))	–	–	–	–	–	–
Chan Hock Eng (note (iv))	–	–	–	–	–	–
David Chow Dah-Jen (note (v))	–	–	–	–	–	–
	–	315	–	7	398	720

8 Directors' remuneration *(Continued)*

	Year ended 31 December 2011					
	Directors' fees US$'000	Salaries, allowances and benefits in-kind US$'000	Discretionary bonuses US$'000	Retirement scheme contributions US$'000	Share-based payments US$'000	Total US$'000
Executive directors						
Zhao Xiaobo	–	115	–	–	84	199
Seah Han Leong	–	161	–	9	84	254
Zhou Honbo (note (i))	–	41	–	–	–	41
Non-executive directors						
Lu Zhicheng	–	–	–	–	–	–
Li Jisheng	–	–	–	–	–	–
Ng Koon Siong (note (ii))	–	–	–	–	–	–
Shi Shanshan (note (iii))	–	–	–	–	–	–
Chan Hock Eng (note(iv))	–	–	–	–	–	–
Liu Tianmin (note (vi))	–	–	–	–	–	–
David Chow Dah-Jen (note(v))	–	–	–	–	–	–
Independent non-executive directors						
Fan Ren Da Anthony (note (vii))	–	–	–	–	–	–
Chia Yew Boon (note (vii))	–	–	–	–	–	–
Chen Hua (note (vii))	–	–	–	–	–	–
	–	317	–	9	168	494

During the year, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes:

(i) The executive director was appointed on 1 May 2010 and resigned on 15 June 2011.

(ii) The non-executive director resigned on 5 March 2010 and was re-appointed as a non-executive director on 1 January 2011.

(iii) The non-executive director was appointed on 5 March 2010.

(iv) The non-executive director was appointed on 5 March 2010 and resigned on 1 January 2011.

(v) The non-executive director resigned on 5 March 2010 and was appointed as an alternate director of Shi Shanshan on 13 December 2011.

(vi) The non-executive director was appointed on 8 September 2011.

(vii) The independent non-executive directors were appointed on 8 September 2011.

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(Expressed in United States dollars unless otherwise indicated)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two are directors for the years ended 31 December 2010 and 2011, whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three individuals for the year ended 2010 and 2011 are as follows:

	2011 US$'000	2010 US$'000
Salaries and other benefits	**826**	644
Discretionary bonuses	**76**	–
Share-based payments	**27**	17
	929	661

These emoluments of the three individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	–

10 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of US$1,914,000 (2010:US$1,198,000), which has been dealt with in the financial statements of the Company.

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of US$10,445,000 (2010: US$7,049,000) and the weighted average number of ordinary shares of 384,926,027 (2010: 363,200,000 after adjusting the subdivision of shares in 2011) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2011 Number of shares	2010 Number of shares
Ordinary shares issued at 1 January	**9,080,000**	9,080,000
Effect of subdivision of shares (note 25(c)(i))	**354,120,000**	354,120,000
Effect of issuance of shares (note 25(c)(ii))	**21,726,027**	–
Weighted average number of ordinary shares at 31 December	**384,926,027**	363,200,000

(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$10,445,000 (2010: US$7,049,000) and the weighted average number of ordinary shares of 398,256,592 (2010: 376,061,880 after adjusting the subdivision of shares in 2011) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2011 Number of shares	2010 Number of shares
Weighted average number of ordinary shares at 31 December	**384,926,027**	363,200,000
Effect of deemed issue of ordinary shares under the Company's option scheme for nil consideration (note 23(a))	**13,330,565**	12,861,880
Weighted average number of ordinary shares (diluted) at 31 December	**398,256,592**	376,061,880

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(Expressed in United States dollars unless otherwise indicated)

12 Property, plant and equipment

The Group

	Leasehold improvements US$'000	Furniture and fittings US$'000	Computers and office equipment US$'000	Plant and machinery US$'000	Motor vehicles US$'000	Total US$'000
Cost:						
At 1 January 2010	451	226	1,130	578	146	2,531
Additions	117	156	355	309	58	995
Additions through business combination (note 29(a))	333	77	65	127	–	602
Disposals	–	–	(68)	(27)	(23)	(118)
Exchange adjustments	(21)	(69)	12	45	3	(30)
At 31 December 2010	880	390	1,494	1,032	184	3,980
At 1 January 2011	880	390	1,494	1,032	184	3,980
Additions	351	150	487	136	287	1,411
Additions through business combination (note 29(b))	6	42	34	–	–	82
Disposals	(147)	(30)	(25)	(107)	(93)	(402)
Exchange adjustments	(8)	(10)	(27)	(6)	13	(38)
At 31December 2011	1,082	542	1,963	1,055	391	5,033
Accumulated depreciation:						
At 1 January 2010	110	54	266	106	19	555
Charge for the year	131	76	257	156	19	639
Written back on disposal	–	–	(19)	(11)	(5)	(35)
Exchange adjustments	(28)	(28)	(7)	(6)	1	(68)
At 31 December 2010	213	102	497	245	34	1,091
At 1 January 2011	213	102	497	245	34	1,091
Charge for the year	198	63	297	138	26	722
Written back on disposal	(89)	(8)	(21)	(98)	(9)	(225)
Exchange adjustments	(7)	11	20	(4)	(6)	14
At 31 December 2011	315	168	793	281	45	1,602
Net book value:						
At 31 December 2010	667	288	997	787	150	2,889
At 31 December 2011	767	374	1,170	774	346	3,431

During the year ended 31 December 2011, additions to computers and machinery of the Group financed by new finance leases was US$26,113 (2010: US$Nil). As at 31 December 2011, the net book value of computers and machinery held under finance leases of the Group was US$59,722 (2010: US$61,000).

As at 31 December 2011, certain items of property, plant and equipment with net book value of US$1,036,000 (2010: US$993,000) have been pledged as securities for the loans and borrowings (note 22(c)).

13 Intangible assets

The Group

	Trade name US$'000	Patents and technology know-how US$'000	Customer relationship US$'000	Non-compete agreements US$'000	Total US$'000
Cost:					
At 1 January 2010	2,287	5,774	356	–	8,417
Additions through internal development	–	3,617	–	–	3,617
Additions through business combination (note 29(a))	584	2,186	1,456	411	4,637
Exchange adjustments	157	391	55	16	619
At 31 December 2010	3,028	11,968	1,867	427	17,290
At 1 January 2011	3,028	11,968	1,867	427	17,290
Additions through internal development	–	3,766	–	–	3,766
Additions through business combination (note 29(b))	–	95	209	–	304
Disposals	(256)	(98)	–	–	(354)
Exchange adjustments	(101)	(116)	(47)	(13)	(277)
At 31 December 2011	2,671	15,615	2,029	414	20,729
Accumulated amortisation:					
At 1 January 2010	–	1,610	101	–	1,711
Charge for the year	–	1,664	241	183	2,088
Exchange adjustments	–	137	7	(5)	139
At 31 December 2010	–	3,411	349	178	3,938
At 1 January 2011	–	3,411	349	178	3,938
Charge for the year	–	2,446	175	223	2,844
Written back on disposals	–	(93)	–	–	(93)
Exchange adjustments	–	(52)	(16)	(17)	(85)
At 31 December 2011	–	5,712	508	384	6,604
Net book value:					
At 31 December 2010	3,028	8,557	1,518	249	13,352
At 31 December 2011	2,671	9,903	1,521	30	14,125

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(Expressed in United States dollars unless otherwise indicated)

14 Goodwill

	The Group	
	2011	2010
	US$'000	US$'000
Cost and carrying value:		
At 1 January	**15,713**	8,010
Additions through business combination (note 29)	**546**	7,382
Exchange adjustments	**(345)**	321
At 31 December	**15,914**	15,713

In 2011, the Company acquired e2 Solutions Inc. and the resulted goodwill is not significant.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation and business lines as follows:

	The Group	
	2011	2010
	US$'000	US$'000
BAS – Canada	**8,806**	8,443
BAS – France	**7,108**	7,270
	15,914	15,713

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2010:3%). The cash flows are discounted using a discount rate of 19% and 15% (2010:19% and 15%) for BAS-Canada and BAS-France, respectively. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

No impairment loss is recognised for the years ended 31 December 2010 and 2011.

15 Other non-current financial assets

	The Group	
	2011	2010
	US$'000	US$'000
Available-for-sale unlisted equity securities	**–**	479
Loan receivable	**–**	357
	–	836

At 31 December 2010, the available-for-sale unlisted equity securities represent the shareholding of 24.3% in e2 Solutions Inc. held by the Group. The directors considered that the Group had no control, joint control or significant influence over e2 Solutions Inc. until October 2011, when the Group increased its shareholding in e2 Solutions Inc. from 24.3% to 50.1%. Since October 2011, e2 Solutions Inc. is consolidated by the Group.

At 31 December 2010, loan receivable represents a balance due from a customer which is interest bearing at 1% per month, secured and repayable after one year, it has been received in 2011.

16 Investments in subsidiaries

	The Company	
	2011	2010
	US$'000	US$'000
Unlisted investments, at cost	**20,323**	20,323
Fair value of share options granted to employees of a subsidiary	**359**	275
	20,682	20,598

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

16 Investments in subsidiaries *(Continued)*

The following list contains the particulars of the Company's subsidiaries as at 31 December 2011.

			Proportion of ownership interest			
Name of company	**Place and date of incorporation/ establishment**	**Particulars of issued and fully paid up share/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Technovator Beijing (wholly foreign-owned enterprise)	PRC 7 August 2006	US$7,000,000	100%	100%	–	Design, manufacturing and marketing of building automation solutions
Distech Controls	Québec 5 January 1995	CAD$14,333,891	56.7%	56.7%	–	Design, manufacturing and marketing of building automation solutions
Distech Europe	The Netherlands 8 September 2006	196 ordinary shares of EUR45 each and 204 preference shares of EUR45 each	56.7%	–	100%	Distribution of building automation solutions
Distech U.S.	United States 17 February 2010	68,587.2 preference shares with CAD$100 each and 100 redeemable shares with no par value	56.7%	–	100%	Investment holding
Comtec	France 27 July 1994	3,057 shares of EUR40 each	56.7%	–	100%	Design, manufacturing, sales and marketing of building automation solutions
Acelia	France 27 February 1996	13,000 shares of EUR10 each	56.7%	–	100%	Sales and marketing of building automation solutions
Distech France	France 24 February 2010	EUR3,685,261	56.7%	–	100%	Investment holding
Technovator Shanghai (limited liability company)	PRC 31 May 2010	RMB5,000,000	80%	–	80%	Distribution of building automation solutions
e2 Solutions Inc.	Canada 30 October 2011	CAD$1,496,632	28.4%	–	50.1%	Management and monitoring services on energy savings

17 Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2011	2010
	US$'000	US$'000
Raw materials	**4,468**	1,871
Work in progress	**551**	561
Finished goods	**9,788**	8,016
	14,807	10,448

All of the inventories are expected to be recovered within one year.

(b) The analysis of the amount of inventories recognised as an expense and included in the profit or loss is as follows:

	The Group	
	2011	2010
	US$'000	US$'000
Carrying amount of inventories sold	**55,836**	42,678
Write-down of inventories	**73**	122
Reversal of write-down of inventories	**(235)**	–
	55,674	42,800

As at 31 December 2011, certain inventories with carrying value of US$3,001,000 (2010:US$1,805,000) have been pledged as securities for the loans and borrowings (note 22(c)).

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(Expressed in United States dollars unless otherwise indicated)

18 Trade and other receivables

	The Group		The Company	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
Trade debtors due from related parties (note 28(c))	**2,613**	38	**–**	54
Other trade debtors and bills receivable	**26,243**	19,262	**199**	315
Less: Allowance for doubtful debts (note 18(b))	**(735)**	(720)	**(2)**	(2)
	28,121	18,580	**197**	367
Other receivables	**437**	793	**19**	10
Loans and receivables	**28,558**	19,373	**216**	377
Deposits and prepayments	**2,578**	4,769	**–**	1,696
	31,136	24,142	**216**	2,073

At 31 December 2011, certain trade debtors and bills receivable with carrying value US$5,137,000 (2010:US$5,202,000) have been pledged as securities for the loans and borrowings (note 22(c)).

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Included in trade and other receivables are external trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group		The Company	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
Current	**17,838**	9,144	**89**	139
Less than 1 month past due	**4,758**	3,461	**77**	10
More than 1 month but less than 3 months past due	**2,431**	4,707	**27**	192
More than 3 months but less than 12 months past due	**2,114**	815	**4**	–
More than 12 months past due	**980**	453	**–**	26
	10,283	9,436	**108**	228
	28,121	18,580	**197**	367

Trade debtors and bills receivable are due within 30–180 days from the date of billing. Further details of the Group's credit policy are set out in note 26(a).

18 Trade and other receivables *(Continued)*

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly (see note 2(k)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2011 **US$'000**	2010 US$'000
At 1 January	**720**	362
Impairment loss recognised	**226**	560
Reversal of impairment loss	**(233)**	–
Uncollectible amounts written off	**(13)**	(202)
Exchange adjustment	**35**	–
At 31 December	**735**	720

At 31 December 2011, certain trade receivables of the Group were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that those receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade debtors and other receivable that are not impaired

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 18(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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(Expressed in United States dollars unless otherwise indicated)

19 Cash and cash equivalents

	The Group		The Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Deposit with banks and other financial institutions	**62**	62	**62**	62
Cash at bank and in hand	**27,878**	15,181	**10,523**	2,031
Cash and cash equivalents	**27,940**	15,243	**10,585**	2,093

20 Trade and other payables

	The Group		The Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Trade payables due to related parties (note 28(c))	**947**	854	**859**	2,277
Other trade and bills payable	**18,968**	14,360	**102**	128
	19,915	15,214	**961**	2,405
Other payables and accruals	**5,881**	5,326	**491**	225
Financial liabilities measured at amortised cost	**25,796**	20,540	**1,452**	2,630
Receipts in advance	**734**	649	**–**	–
Deferred income	**32**	168	**–**	–
	26,562	21,357	**1,452**	2,630

All of the above balances are expected to be settled within one year. Included in trade and other payables are trade payables with the following ageing analysis as of the end of the reporting period:

	The Group		The Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
By date of invoice:				
Within 3 months	**18,038**	13,007	**126**	2,342
More than 3 months but within 6 months	**228**	1,655	**88**	12
More than 6 months but within 12 months	**476**	702	**747**	41
More than 12 months	**1,173**	598	**–**	10
	19,915	15,962	**961**	2,405

21 Gross amounts due from/to customers for contract work

	The Group	
	2011 **US$'000**	2010 US$'000
Direct costs incurred to date on contract plus attributable profits less recognised losses	**10,977**	5,644
Less: Progress payments received	**(10,469)**	(5,592)
Gross amounts due from customers for contract work	**508**	52
Direct costs incurred to date on contract plus attributable profits less recognised losses	**8,080**	4,233
Less: Progress payments received	**(8,437)**	(4,543)
Gross amounts due to customers for contract work	**(357)**	(310)

22 Loans and borrowings

(a) The analysis of carrying amount of loans and borrowings is as follows:

	The Group	
	2011 **US$'000**	2010 US$'000
Secured bank overdrafts	**308**	1,433
Bank loans		
– Secured	**4,328**	5,733
– Unsecured	**1,413**	1,574
	6,049	8,740
Other borrowings	**924**	977
	6,973	9,717

At 31 December 2010, secured bank overdrafts of US$312,000 were secured by personal guarantee of US$78,000 from a director of Distech Europe.

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(Expressed in United States dollars unless otherwise indicated)

22 Loans and borrowings *(Continued)*

(b) At the end of the reporting period, loans and borrowings were repayable as follows:

	The Group	
	2011 US$'000	2010 US$'000
Within 1 year or on demand	**3,591**	9,344
After 1 year but within 2 years	**1,501**	149
After 2 years but within 5 years	**1,509**	224
After 5 years	**372**	–
	3,382	373
	6,973	9,717

(c) The amounts of banking facilities and the utilisation at the end of the reporting period are set out as follows:

	The Group	
	2011 US$'000	2010 US$'000
Banking facilities		
– Secured	**7,938**	9,368
– Unsecured	**16,097**	22,714
	24,035	32,082

At 31 December 2011, the facilities were utilised to the extent of US$6,181,000 (2010: US$8,969,000).

22 Loans and borrowings *(Continued)*

(c) *(Continued)*

The secured banking facilities were pledged by the Company's investment on Distech Controls and the following assets:

		The Group	
	Note	**2011** **US$'000**	2010 US$'000
Property, plant and equipment	12	**1,036**	993
Available-for-sale unlisted equity securities	15	**–**	479
Inventories	17(b)	**3,001**	1,805
Trade debtors and bills receivable	18	**5,137**	5,202
		9,174	8,479

At 31 December 2010, the Group did not comply with certain financial covenants in respect of a bank loan with carrying amounts of US$5,733,000. As a result, loans and borrowings that are repayable after more than one year from 31 December 2010 with carrying amounts of US$4,426,000 were classified as current liabilities as at 31 December 2010. During 2011, the Group obtained a new banking agreement in which all of the covenants are removed.

Further details of the Group's management of liquidity risk are set out in note 26(b).

23 Equity settled share-based transactions

(a) Pre-IPO Share Option Scheme

The Company has a share option scheme, namely the Technovator Employee Share Option Scheme 2009 ("Pre-IPO Share Option Scheme"), which was adopted on 11 August 2009 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nominal consideration of Singapore dollar ("SG$") 1 per grant of option to subscribe for shares of the Company. The total number of shares issued and to be issued upon exercise of the options granted to the employees shall not exceed 10% of the total issued shares. Options are generally exercisable during the period commencing after vesting period and expiring on the third anniversary of such grant date. The vesting period to exercise one third of the total options is 18 months and the remaining two third is 24 months after the grant. Each option gave the holder the right to subscribe for one ordinary share of the Company at an initial exercise price of US$3.57 per share.

On 15 August 2011, the Company adopted a 40-for-1 share subdivision of its issued ordinary shares. The number of shares under each outstanding option granted and remained un-exercised, under the Pre-IPO Share Option Scheme, as at that date was adjusted at the same ratio of 1:40. The exercise price per share under the outstanding options was adjusted on a proportionate basis. All numbers/per share data of the Pre-IPO Share Option Scheme in note 23(a) above has been presented before the effect of the subdivision of shares. On the same date, the Company approved the modification of terms of the Pre-IPO Share Option Scheme, pursuant to which the United States Dollars denominated exercise price of each outstanding option at that date. The modification did not result in any incremental fair value of the share options granted under the Pre-IPO Share Option Scheme.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

23 Equity settled share-based transactions *(Continued)*

(a) Pre-IPO Share Option Scheme *(Continued)*

(i) *The terms and conditions of the grants are as follows:*

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
on 11 August 2009	8,080,000	18 months from the date of grant	3 years
on 11 August 2009	16,160,000	24 months from the date of grant	3 years
Options granted to employees:			
on 11 August 2009	4,026,680	18 months from the date of grant	3 years
on 11 August 2009	8,053,320	24 months from the date of grant	3 years
Total share options granted	36,320,000		

(ii) *The number and weighted average exercise prices of share options are as follows:*

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**US$3.57**	**908,000**	US$3.57	908,000
Subdivision of shares during the year	**HK$0.695**	**35,412,000**	–	–
Outstanding at the end of the year	**HK$0.695**	**36,320,000**	US$3.57	908,000
Exercisable at the end of the year	**HK$0.695**	**36,320,000**	–	–

No options were exercised during the years ended 31 December 2010 and 2011.

The options outstanding at 31 December 2011 had an exercise price of HK$0.695(2010: US$3.57) and weighted average remaining contractual life of 0.6 year (2010: 1.6 years).

23 Equity settled share-based transactions *(Continued)*

(a) Pre-IPO Share Option Scheme *(Continued)*

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

Fair value of share options and assumptions

Fair value at measurement date	
– vesting date on 12 February 2011	US$1.14
– vesting date on 12 August 2011	US$1.21
Share price	US$3.61
Exercise price	US$0.089
Expected volatility	50.10%
Option life	3 years
Expected dividends	0%
Risk-free interest rate (based on 3-year US Treasury Bond yield)	1.78%

The expected volatility is based on the historic volatility of the share prices of the comparable companies. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Distech Controls Share Option Plan

Distech Controls adopted a share option plan ("Distech Controls Share Option Plan") in May 2008 whereby the directors of Distech Controls are authorised, at their discretion, to invite the executives and management of Distech Controls to take up options to subscribe for the Class B common shares of Distech Controls. The total number of Class B common shares that can be issued cannot exceed 2,000,000 shares of the share capital issued and outstanding.

All options granted under this plan will not exceed a three-year plan term and a five-year term respectively, starting from the date of grant. Options granted to directors of Distech Controls can be exercised at a rate of one-third per year. Options granted to employees of Distech Controls can be exercised at a rate of one-fifth per year except for the 150,000 options granted to the then non-controlling shareholders of Distech Europe which were immediately vested at the grant date. Each option gives the holder the right to subscribe for one Class B share of Distech Controls at an exercise price of CAD$0.60.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

23 Equity settled share-based transactions *(Continued)*

(b) Distech Controls Share Option Plan *(Continued)*

(i) The terms and conditions of the grants are as follows:

	Number of Options	Vesting conditions	Contractual life of options
Options granted to employees:			
27 May 2008	1,315,000	20% per annum	5 years
8 September 2009	140,000	20% per annum	5 years
10 March 2010	260,000	20% per annum	5 years
19 January 2011	135,000	20% per annum	5 years
19 July 2011	100,000	20% per annum	5 years
	1,950,000		
Options granted to the then non-controlling shareholder of Distech Europe:			
27 July 2009	150,000	At grant	5 years
Options granted to directors:			
10 March 2010	200,000	33% per annum	3 years
Total share options granted	2,300,000		

(ii) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted Average exercise price CAD $	**Number of options**	Weighted average exercise price CAD $	Number of options
Outstanding at the beginning of the year	**0.60**	**1,815,000**	0.60	1,395,000
Forfeited during the year	**0.60**	**(280,000)**	0.60	(40,000)
Granted during the year	**0.60**	**235,000**	0.60	460,000
Outstanding at the end of the year	**0.60**	**1,770,000**	0.60	1,815,000
Exercisable at the end of the year	**0.60**	**610,667**	0.60	604,000

No options were exercised during the year ended 31 December 2011.

The options outstanding at 31 December 2011 had an exercisable price of CAD$0.60 (2010: CAD$0.60) and a weighted average remaining contractual life of 1.91 years (2010: 2.84 years).

23 Equity settled share-based transactions *(Continued)*

(b) Distech Controls Share Option Plan *(Continued)*

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes option pricing model.

	2008	2009	2010	**2011**
Fair value of share options and assumptions				
Fair value at measurement date	CAD $0.29	CAD $0.47	CAD $0.79	**CAD $0.93**
Share price	CAD $0.77	CAD $0.79	CAD $1.32	**CAD $1.32 – CAD $1.45**
Exercise price	CAD $0.60	CAD $0.60	CAD $0.60	**CAD $0.60**
Expected volatility	22%	22%	22%	**24% – 46%**
Option life	5 years	5 years	3–5 years	**5 years**
Expected dividends	0%	0%	0%	**0%**
Risk-free interest rate	2.98%	2.33%	2.20%	**1.85% – 2.25%**

The expected volatility is based on the historic volatility of the share prices of the comparable companies. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options, except for the options granted to the former non-controlling shareholder of Distech Europe that were immediately vested, were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants. The 150,000 options granted to the non-controlling shareholder of Distech Europe have been forfeited during 2011.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

24 Income tax in the balance sheet

(a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and movements during the year are as follows:

	Depreciation in excess of the related depreciation allowances US$'000	Amortisation of intangibles US$'000	Research and development tax credits US$'000	Provision for trade receivables and inventories US$'000	Unrealised profit for inventories US$'000	Unused tax losses US$'000	Others US$'000	Total US$'000
At 1 January 2010	(91)	485	411	(68)	(50)	–	(69)	618
Acquisition of subsidiaries (note 29)	–	1,454	(146)	–	–	–	–	1,308
Charged/(credited) to the consolidated income statement (note 7(a))	8	(271)	592	(83)	28	(137)	9	146
Exchange adjustments	(4)	15	49	(2)	(1)	(5)	(2)	50
At 31 December 2010	(87)	1,683	906	(153)	(23)	(142)	(62)	2,122
At 1 January 2011	(87)	1,683	906	(153)	(23)	(142)	(62)	2,122
Charged/(credited) to the consolidated income statement (note 7(a))	134	(234)	299	(90)	(127)	(53)	(3)	(74)
Exchange adjustments	(2)	(30)	(9)	(4)	–	–	–	(45)
At 31 December 2011	45	1,419	1,196	(247)	(150)	(195)	(65)	2,003

	The Group	
	2011 US$'000	2010 US$'000
Represented by:		
Deferred tax assets	**(287)**	(100)
Deferred tax liabilities	**2,290**	2,222
	2,003	2,122

24 Income tax in the balance sheet *(Continued)*

(b) Deferred tax assets not recognised

At 31 December 2011, in accordance with the accounting policy set out in note 2(s), the Company did not recognise deferred tax assets in respect of unused tax losses of US$1,861,000 (2010: US$1,365,000) and the Group did not recognise deferred tax assets in respect of unused tax losses of US$2,275,000 (2010: US$2,016,000), as it is not probable that future taxable profits against which the losses can be utilised will be available to the relevant tax entities. The tax losses of the Company do not expire under tax legislation. The remaining unrecognized tax losses of US$414,000 will not expire until after 2016.

(c) Deferred tax liabilities not recognised

At 31 December 2011, no deferred tax liability was recognised on the taxable temporary differences in respect of the tax that would be payable on the distribution of the undistributed profits of certain subsidiaries of the Company amounting US$26,031,000 (2010: US$15,689,000), as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

According to the new CIT Law and its implementation rules, non-PRC-resident enterprises are levied withholding tax at 10%, subject to any double tax treaty relief, on dividends from their PRC-resident investees for earnings accumulated beginning on 1 January 2008. According to the double tax treaty between the PRC and Singapore, the dividend withholding tax rate could be reduced to 5% provided that a Singapore parent company is the "beneficial owner" and holds directly at least 25% of the equity interest of a PRC company. Distributions of earnings generated prior to 1 January 2008 are exempt from such withholding tax.

According to the tax regulation of Canada, non-Canada-resident enterprises are levied withholding tax at 25%, subject to any tax treaty relief, on dividends from their Canada-resident investees. According to the tax treaty between Canada and Singapore, the withholding tax rate could be reduced to 15% when a Singapore-resident enterprise is the beneficial owner of the dividends being distributed.

According to the tax treaty between France and Canada, Canada-resident enterprises are levied withholding tax at 5% to 15% on dividends from their France-resident investees provided that Canada-resident enterprise is the "beneficial owner" and holds directly or indirectly at least 10% of the capital of the France-resident enterprise.

According to the French tax law, among French companies, 95% of the dividend receivable from a French subsidiary is exempt from tax if the parent company owns at least 5% of the French subsidiary's share capital. The remaining 5% is taxed at the current applicable tax rate. Within a tax-consolidated group, dividends are 100% tax exempt from the second year of tax consolidation.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

25 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital Note 25(c) US$'000	Share-based compensation reserve Note25(d)(iii) US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2010	24,228	231	(1,687)	22,772
Equity settled share-based transactions	–	596	–	596
Loss for the year	–	–	(1,198)	(1,198)
At 31 December 2010	24,228	827	(2,885)	22,170
At 1 January 2011	24,228	827	(2,885)	22,170
Issuance of shares for initial public offering	15,693	–	–	15,693
Share issuance costs	(6,135)	–	–	(6,135)
Equity settled share-based transactions	–	253	–	253
Loss for the year	–	–	(1,914)	(1,914)
At 31 December 2011	33,786	1,080	(4,799)	30,067

(b) Dividends

The Company has not distributed any dividends during the years ended 31 December 2010 and 2011.

25 Capital, reserves and dividends *(Continued)*

(c) Share capital

	2011 Number of shares	2011 Amounts US$'000	2010 Number of shares	2010 Amounts US$'000
Ordinary shares, issued and fully paid:				
At 1 January	**9,080,000**	**24,228**	9,080,000	24,228
Subdivision of shares	**354,120,000**	**–**	–	–
Issuance of shares	**122,000,000**	**15,693**	–	–
Share issuance costs	**–**	**(6,135)**	–	–
At 31 December	**485,200,000**	**33,786**	9,080,000	24,228

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) Pursuant to the written resolutions passed by the Company's shareholders on 15 August 2011, the Company adopted a 40-for-1 share subdivision of its ordinary shares (the "subdivision of shares").

(ii) On 27 October 2011, the Company was successfully listed on the Stock Exchange following the completion of its initial public offering of 122,000,000 shares to the investors. The proceeds of US$15,693,000 were credited to the Company's share capital.

(iii) No shares were issued under the Pre-IPO Share Option Scheme during the years ended 31 December 2010 and 2011.

(iv) Terms of unexpired and unexercised share options under the Pre-IPO Share Option Scheme at the balance sheet dates are as follows:

Exercise period	2011 Exercise price	2011 Number of options	2010 Exercise price	2010 Number of options
12 February 2011 to 11 August 2012	**HK$0.695**	**12,106,680**	US$3.57	302,667
12 August 2011 to 11 August 2012	**HK$0.695**	**24,213,320**	US$3.57	605,333
		36,320,000		908,000

Each option entitles the holder to subscribe for one ordinary share in the Company.

Further details of these options are set out in note 23.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

25 Capital, reserves and dividends *(Continued)*

(d) Nature and purpose of reserves

(i) Statutory reserves

Transfers from retained profits to statutory reserves are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's PRC subsidiaries and were approved by the respective board of directors.

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the statutory reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The statutory reserve can be utilised to offset prior year's losses or converted into capital of the subsidiary.

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(v).

(iii) Share-based compensation reserve

Share-based compensation reserve represents the fair value of the share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in note 2(r)(ii).

(iv) 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 and the amount by which the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiary. In 2010, the movement arose from the change in ownership interest in Distech Controls from 63.8% to 56.7%.The reserve is dealt with in accordance with the accounting policies set out in note 2(d).

(v) Distributable reserves

The Company does not have reserves available for distribution to equity shareholders of the Company at 31 December 2010 and 2011.

(e) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company defines "capital" as including all components of equity and short-term and long-term loans. On this basis, at 31 December 2011, the amount of capital employed was US$77,701,000 (2010: US$58,076,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or dispose of assets to reduce debt.

Neither the Company nor any of its subsidiaries are subjected to externally imposed capital requirements.

26 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay deposits upfront and the remaining trade receivables are due within 30–180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2011, the Group has certain concentration credit risk that 14.8% (2010: 10.5%) of the total trade and other receivables were due from the Group's five largest customers and there were no trade and other receivables due from the Group's largest customer as at 31 December 2010 and 2011.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

26 Financial risk management and fair values *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements of each company to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet dates of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2011 Contractual undiscounted cash flow					
	Within 1 year or on demand US$'000	**More than 1 year but less than 2 years US$'000**	**More than 2 years but less than 5 years US$'000**	**More than 5 years US$'000**	**Total US$'000**	**Balance sheet carrying amount US$'000**
Trade payables due to related parties	**947**	**–**	**–**	**–**	**947**	**947**
Other trade and bills payables	**18,968**	**–**	**–**	**–**	**18,968**	**18,968**
Other payables and accruals	**5,881**	**–**	**–**	**–**	**5,881**	**5,881**
Loans and borrowings	**3,707**	**1,618**	**1,562**	**374**	**7,261**	**6,973**
Obligations under finance leases	**64**	**13**	**5**	**13**	**95**	**87**
	29,567	**1,631**	**1,567**	**387**	**33,152**	**32,856**

	2010 Contractual undiscounted cash flow				
	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	Total US$'000	Balance sheet carrying amount US$'000
Trade payables due to related parties	854	–	–	854	854
Other trade and bills payables	14,360	–	–	14,360	14,360
Other payables and accruals	5,326	–	–	5,326	5,326
Loans and borrowings	9,478	151	234	9,863	9,717
Obligations under finance leases	128	61	21	210	198
	30,146	212	255	30,613	30,455

26 Financial risk management and fair values *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at bank, deposits with banks, loans and borrowings issued at variable rates that expose the Group to cash flow interest rate risk and fixed rates that expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	2011 Effective interest rate %	**2011** Amounts US$'000	2010 Effective interest rate %	2010 Amounts US$'000
Fixed rate instruments:				
Loans and borrowings	**4.65**	**1,322**	4.61	1,353
		1,322		1,353
Variable rate instruments:				
Loans and borrowings	**5.91**	**5,651**	4.98	8,364
Obligations under finance leases	**6.53**	**87**	5.37	198
		5,738		8,562
Total borrowings		**7,060**		9,915
Fixed rate borrowings as a percentage of total borrowings		**18.7%**		13.6%

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately US$40,000 (2010: US$60,000).

The sensitivity analysis above relates to the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, and the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest exposure or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

26 Financial risk management and fair values *(Continued)*

(d) Currency risk

The Group is 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.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in United States Dollars translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2011 Exposure to foreign currencies (expressed in US$)		
	Euros US$'000	**United States Dollars US$'000**	**Hong Kong Dollars US$'000**
Trade and other receivables	**4,210**	**5,482**	**–**
Cash and cash equivalents	**202**	**218**	**3,562**
Trade and other payables	**(3,257)**	**(3,257)**	**(54)**
Net exposure arising from recognised assets and liabilities	**1,155**	**2,443**	**3,508**

	2010 Exposure to foreign currencies (expressed in US$)		
	Euros US$'000	United States Dollars US$'000	Hong Kong Dollars US$'000
Trade and other receivables	4,309	5,222	670
Cash and cash equivalents	283	17	–
Trade and other payables	(4,462)	(1,715)	–
Loans and borrowings	(1,335)	–	–
Net exposure arising from recognised assets and liabilities	(1,205)	3,524	670

26 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits US$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits US$'000
Euros	**5%**	**43**	5%	(40)
	(5)%	**(43)**	(5)%	40
United States Dollars	**5%**	**98**	5%	138
	(5)%	**(98)**	(5)%	(138)
Hong Kong Dollars	**5%**	**146**	5%	28
	(5)%	**(146)**	(5)%	(28)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and retained profits measured in the respective functional currencies, translated into United States Dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

27 Commitments

(a) Capital commitments

The Group has no material capital commitments at 31 December 2010 and 2011.

(b) Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2011 **US$'000**	2010 US$'000
Within 1 year	**965**	960
After 1 year but within 5 years	**1,714**	1,580
	2,679	2,540

The Group leases a number of properties and items of plant and machinery under operating leases. The leases typically run for an initial period of one to five years, at the end of which period all terms are negotiated. None of the leases includes contingent rentals as at 31 December 2010 and 2011.

28 Material related party transactions

(a) Name and relationship with related parties

During the years ended 31 December 2010 and 2011, 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
Diamond Standard Ltd.	Jointly controlled entity held by a director of the Company
Tongfang Asia Pacific (R&D) Center Pte Ltd.	Subsidiary of Tongfang Co., Ltd.
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.

28 Material related party transactions *(Continued)*

(b) Significant related party transactions

Particulars of significant related party transactions during the years ended 31 December 2010 and 2011 are as follows:

	2011 **US$'000**	2010 US$'000
Sales to Tongfang Co., Ltd.	**10,891**	5,292
Purchases from Tongfang Co., Ltd.	**1,442**	1,019
Purchases from Liaoning Tongfang Security Technology Co., Ltd.	**423**	409
Purchases from Tsinghua Tongfang Artificial Environment Co., Ltd.	**134**	–
Rental expenses paid to Tongfang Co., Ltd.	**261**	235
Machineries rental expenses paid to Tongfang Co., Ltd.	**50**	48

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 years ended 31 December 2010 and 2011 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

28 Material related party transactions *(Continued)*

(c) Amounts due from/(to) related parties

At 31 December 2010 and 2011, the Group had the following balances with related parties:

	2011 US$'000	2010 US$'000
Trade debtors:		
Tongfang Co., Ltd.	**2,610**	–
Liaoning Tongfang Security Technology Co., Ltd.	**3**	38
	2,613	38
Other receivables:		
Tongfang Co. Ltd.	**–**	52
Tongfang Asia Pacific (R&D) Center Pte Ltd.	**–**	2
	–	54
Amounts due from related parties	**2,613**	92
Trade payables:		
Tongfang Co., Ltd.	**(916)**	(844)
Tsinghua Tongfang Artificial Environment Co., Ltd.	**(30)**	(9)
Tongfang Health and Technology (Beijing) Co.,Ltd.	**(1)**	(1)
	(947)	(854)
Other payables:		
Tongfang Health and Technology (Beijing) Co.,Ltd.	**–**	(15)
Diamond Standard Ltd.	**–**	(1)
Tongfang Co., Ltd.	**–**	(732)
	–	(748)
Amounts due to related parties	**(947)**	(1,602)

Balances with related parties are unsecured and interest free.

28 Material related party transactions *(Continued)*

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2011 US$'000	2010 US$'000
Short term employee benefits	**799**	574
Post-employment benefits	**9**	7
Share-based payments	**168**	398
	976	979

Total remuneration was included in "staff costs" (see note 6(b)).

29 Business combinations and acquisition of subsidiaries

(a) Acquisition of Comtec and Acelia

On 25 February 2010, Distech Controls acquired 100% equity interest in Comtec and Acelia from Groupe Arcom by cash consideration of US$5,377,000 and issuance of ordinary shares of Distech Controls having an estimated fair value of US$5,416,000.

Comtec is principally engaged in the design, manufacturing, sales and marketing of building automation solutions while Acelia is principally engaged in the sales and marketing of building automation solutions provided by Comtec. This acquisition is a single negotiation to acquire the two entities from their parent company.

Consideration transferred

	2010 US$'000
Cash	5,377
Ordinary shares	5,416
	10,793

The fair value of the ordinary shares issued was based on the price agreed between Groupe Arcom and Distech Controls which is with reference to a valuation prepared by an external valuer.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

29 Business combinations and acquisition of subsidiaries *(Continued)*

(a) Acquisition of Comtec and Acelia *(Continued)*

Identifiable assets acquired and liabilities assumed

	Note	**Acquiree's carrying amount** US$'000	**Fair value recognised on acquisition** US$'000
Property, plant and equipment	12	602	602
Intangible assets	13	275	4,637
Other non-current assets		74	74
Deferred tax assets	24(a)	146	146
Inventories		1,199	1,199
Trade and other receivables		3,802	3,802
Income tax recoverable		85	85
Cash and cash equivalents		118	118
Trade and other payables		(3,566)	(3,566)
Loans and borrowings		(2,207)	(2,207)
Obligations under finance leases		(25)	(25)
Deferred tax liabilities	24(a)	–	(1,454)
Net identifiable assets and liabilities		503	3,411

The intangible assets include trade name, customer relationship, technology know-how and non-compete agreements. The fair value of trade name acquired in the business combination is determined based on the income approach technique known as the royalty-relief method. The fair value of customer relationship acquired in the business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of technology know-how and non-compete agreements is determined based on discounted cash flow method and replacement cost method respectively. Property, plant and equipment is not fair valued because the directors consider that the amount involved is not significant.

29 Business combinations and acquisition of subsidiaries *(Continued)*

(a) Acquisition of Comtec and Acelia *(Continued)*

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	Note	US$'000
Total consideration transferred		10,793
Less: Fair value of identifiable assets and liabilities acquired		(3,411)
Goodwill	14	7,382
Total consideration paid in cash		5,377
Less: Cash of Comtec and Acelia acquired		(118)
Cash paid to obtain controls, net of cash acquired		5,259

The goodwill is attributable to the skills and technical of Comtec and Acelia's work force, and the synergies expected to be achieved from integrating the Company into the Group's existing BAS business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs

The Group incurred acquisition-related costs of US$294,000 relating to external legal fees and due diligence costs. The legal fees and due diligence costs were charged to profit or loss as incurred and have been included in administrative expenses.

(b) Acquisition of e2 Solutions Inc.

On 30 October 2011, Distech Controls increased its equity interest in e2 Solutions Inc. from 24.3% to 50.1% by cash consideration of CAD$514,045 (USD$503,970). e2 Solutions Inc. is principally engaged in providing service to optimize facility operations, reduce maintenance costs and energy consumptions. The identifiable assets and liabilities assumed are not significant to the Group.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

30 Accounting estimates and judgements

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(i) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the end of the reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(ii) *Impairment of trade receivables*

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade receivables at the end of the reporting period.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) *Income tax*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax liability was not recognised in respect of the withholding income tax that would be payable on the distribution of retained profits of the Company's subsidiaries as the Company considers that it is probable that such profits will not be distributed in the foreseeable future. Any changes in dividend policy may result in the recognition of the related deferred tax liabilities.

30 Accounting estimates and judgements *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(v) *Development costs*

Critical judgment by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the end of the reporting period. In addition, all internal activities related to the research and development of new products are continuously monitored by the Group management.

(vi) *Fair value of assets acquired and liabilities assumed upon acquisition of subsidiaries*

In connection with acquisition of subsidiaries, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of fair value of the assets acquired and liabilities assumed involved management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed and would change the amount of depreciation or amortisation expenses recognised relating to those identifiable property, plant and equipment and intangible assets.

(vii) *Construction contracts*

As explained in policy notes 2(m) and 2(u)(iii), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from/to customers for contract work as disclosed in note 21 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

31 Possible impact of amendments, new standards and interpretations issued but not yet effective during the year ended 31 December 2011

Up to the date of issue of this report, the HKICPA has issued a number of amendments and interpretations which are not yet effective during the year ended 31 December 2011 and one new standard which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.