Technovator

Technovator International Limited

(incorporated in Singapore with limited liability)

Stock Code: 1206

Annual Report 2012

Energy Saving Products & Solutions Provider

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Lu Zhicheng (陸致成) *(Chairman)*
Dr. Li Jisheng (李吉生)
Mr. Liu Tianmin (劉天民)
Mr. Ng Koon Siong (黃坤商)

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

BOARD COMMITTEES

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

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

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

JOINT COMPANY SECRETARIES

Mr. Leung Lok Wai
Ms. Tan Siew Hua

AUTHORISED REPRESENTATIVES

Mr. Zhao Xiaobo
Mr. Seah Han Leong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

KPMG
KPMG LLP

SINGAPORE PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

www.technovator.com.sg

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations (China) Limited

COMPLIANCE ADVISOR

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") and the management, I am pleased to present to the shareholders (the "Shareholders") the report on the development and operating results of Technovator International Limited (the "Company" or "Technovator") and its subsidiaries (the "Group") for the year ended 31 December 2012.

On 27 October 2011, the Company was listed on main board of Hong Kong Stock Exchange. We are the first company from Tsinghua University to be listed overseas, and also the first mainland A-share listed company spin-off listing on an overseas stock exchange. After one year of listing, the Company received warm support from the investors. In 2012, the Company's Chinese company name has been changed to "同方泰德國際科技有限公司". We expect that the adoption of the new Chinese name will enable investors and the public to have a better understanding and a more outstanding impression of the Company.

In the challenging business environment of 2012, we continued to work on product research and development and market expansion, and made steady progress through challenges and competitions. Our excellent technical background, integrated service capabilities and overall solutions helped us achieve partnership with various provincial and city governments and sizable enterprises. We enforced our core strategies which are: to expand and deepen our distribution network, strengthen our research and development capabilities and boost up our brand recognition. We drew on our time-to-market innovating capabilities to offer tailor-made all-rounded building energy-saving solutions to customers in a wide range of industries so as to cater for the needs of different customers.

Breakthrough Development of Proprietary Energy-saving Products and Systems

With the strong support from tremendous demands in building energy-saving market in China and the policy of energy conservation and emission reduction implemented by Chinese government. In 2012, the Company seized favourable opportunities and has first developed the cloud-based service system which combined the usage of internet and data integration of China. Leveraging the platform of cloud-based technology, we could provide systematic and integrated services such as expert energy-consumption analysis for the buildings, energy-saving control and data management for companies and governments. In addition, we also rolled out the Energy-saving Expert Control System ("EEC"), which combined the functions of energy management, energy-saving analysis and control, and can be customized for systems and products in accordance with different needs of projects for the clients, achieving the target of maximization the local energy-saving, which is applicable to public buildings. All of these research and development of new technologies and products and the commencement into production enabled the Company to gain a fundamental strategic edge in capturing opportunities for business growth in the mainland China energy-saving market and laid a solid technical foundation for our long-run development.

Rapid Growth of Domestic Market

In recent years, the "12th Five-Year Plan" issued by Chinese government calls for a major push of domestic energy-saving industry. Many local governments have set up green building regulations in line with national policies. In first-tier cities, new buildings generally need to comply with a minimum energy-saving standard. Local governments have launched ambitious plans to renovate existing buildings to make them less energy-consumption and more energy-efficient. Several tax rebates and other financial incentives for energy efficient buildings project were already released.

The energy-saving market of mainland China will remain a major business focus of the Group. During the previous year, we continued to consolidate the close co-operation with existing distributors and system integrators by leveraging our advantage of self-advanced products and technology. We also put efforts on exploring new business model and drove the building energy-saving to a path of urbanization. So far, we have already provided energy-saving reform services for different building types ranging from government, office buildings, school campuses, hospitals to offices in cities such as Beijing, Chongqing, Jinan, Hangzhou, Wuhan, Chengdu. In the meanwhile, we continue our stable progress of city building energy-saving reform project with Chongqing Municipal Government. Energy evaluation and monitoring work for over 200 buildings in Chongqing have been done so far. The Company is also under rapid progress of the city energy-saving projects in regions such as Shanxi, Xinjiang and Inner Mongolia.

"Technovator" serves as the leading enterprise in domestic building energy-saving industry with its foundation of products and technology in prominent brand reputation. We believe that, with the rapid development of domestic building energy-saving market and support of government policies as well as development of new business model, the Group's business will surely escalate to a new level.

Steady Development of Internationalization

Regarding to our overseas markets, significant growth opportunities rised in energy-saving and environment protection market as a result of rising global energy costs and more stringent government regulation of different countries. In 2012, our overseas business focused on large-scale chain customers groups, providing tailor-made and professional building energy-saving management solution and supporting services.

Distech Controls, Technovator's subsidiary, entered into a strategic partnership with Samsung Techwin, a renowned global supplier in building energy-saving management solutions and energy efficiency consulting services.

Meanwhile, Distech Controls started to consider the introduction of new strategic investment partner, which aims at increase our liquidity capital, improve shareholding structure and so as to better develop the key business of the Group. Besides, the Group expanded its business in the Association of Southeast Asian Nations (ASEAN) area which is the area that enjoys the fastest growth rate in global economy. The Group has already signed several project contracts with countries in ASEAN and launched its business.

All the above measures significantly enforced the Company's experience in international projects and brand strength, and will further assist the Group explore more markets and capture business opportunities. Looking forward, the Group will continue to expand its global business network, strengthen its edges in research and development, improve its products and solutions and seek for potential acquisition and merger opportunities, with an aim to accelerate development and enhance the leading position in the industry of the Group.

Lastly, on behalf of Technovator, I would like to express our gratitude to all of our staffs for their contribution, to our customers and business partners for their tremendous support, and to all the investors and shareholders for their trust and support during the previous year. We will respond to coming challenges and opportunity with an enhanced professionalism and more comprehensive management in the future. With the strong support of tremendous demand in the market of global energy-saving and environment protection and the favourable domestic policy, we are full of confidence in the future development of the Group, and will pursue our commitment to create greater value for our Shareholders!

Lu Zhicheng
Chairman

21 March 2013

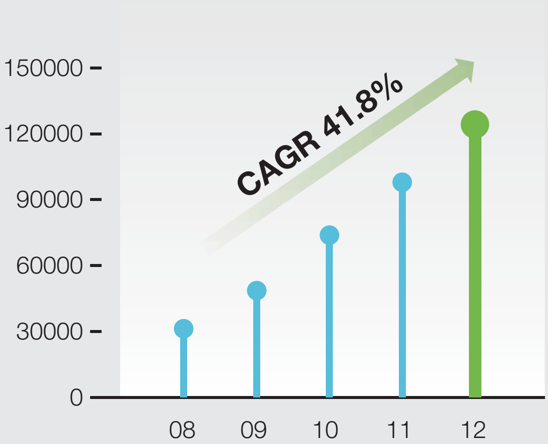
FIVE YEAR FINANCIAL SUMMARY

	2008	2009	2010	2011	**2012**
('000 USD)					
Consolidated income statement					
Revenue	30,695	48,234	74,085	97,513	**124,209**
Cost of sales	(22,280)	(30,371)	(48,888)	(61,118)	**(79,704)**
Gross profit	8,415	17,863	25,197	36,395	**44,505**
Other revenue	127	54	1,433	1,293	**1,167**
Other net (loss)/gain	(87)	31	13	(60)	**36**
Selling and distribution costs	(2,932)	(4,308)	(6,720)	(8,520)	**(9,393)**
Administrative and other operating expenses	(2,984)	(4,487)	(8,798)	(11,017)	**(13,397)**
Research and development expenses	(511)	(1,817)	(1,945)	(2,956)	**(3,149)**
Finance expenses	(154)	(139)	(541)	(542)	**(579)**
Profit before taxation	1,874	7,197	8,639	14,593	**19,190**
Income tax	(336)	(1,576)	(1,459)	(2,777)	**(3,981)**
Profit for the year	1,538	5,621	7,180	11,816	**15,209**
Profit attributable to:					
Equity holders of the company	1,089	5,176	7,049	10,445	**13,392**
Non-controlling interests	449	445	131	1,371	**1,817**
Profit for the year	1,538	5,621	7,180	11,816	**15,209**
Basic earnings per share (US$) (Note)	0.004	0.014	0.019	0.027	**0.027**
Diluted earnings per share (US$) (Note)	0.004	0.014	0.019	0.026	**0.027**
('000 USD)					
Non-current assets	13,708	17,065	32,890	33,757	**46,120**
Current assets	30,210	32,712	49,915	74,391	**101,425**
Current liabilities	17,156	14,632	31,722	31,634	**53,708**
Net current assets	13,054	18,080	18,193	42,757	**47,717**
Total assets less current liabilities	26,762	35,145	51,083	76,514	**93,837**
Non-current liabilities	1,019	1,395	2,724	5,786	**9,333**
Total equity attributable to equity shareholders of the company	23,215	30,341	43,936	65,013	**77,902**
Non-controlling interests	2,528	3,409	4,423	5,715	**6,602**
Total equity	25,743	33,750	48,359	70,728	**84,504**
Net assets per share (Note)	0.07	0.09	0.13	0.15	**0.16**
Financial ratios					
Cost to income ratio	72.6%	63.0%	66.0%	62.7%	**64.2%**
Pre-tax profit margin	6.1%	14.9%	11.7%	15.0%	**15.4%**
Return on equity	6.0%	16.7%	14.8%	16.7%	**18.0%**
Current ratio	1.8	2.2	1.6	2.4	**1.9**

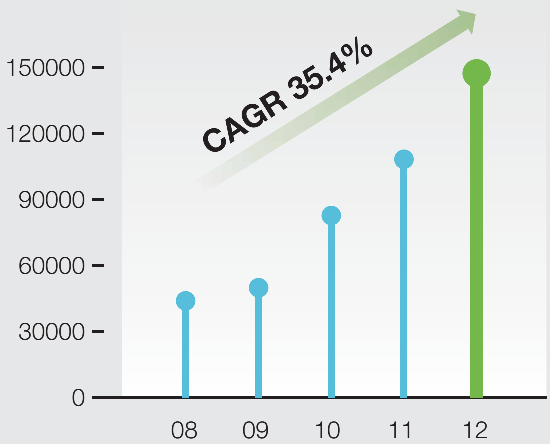
Note: Basic earnings per share, diluted earnings per share and net assets per share for 2008, 2009, 2010 has been adjusted based on a 40-for-1 share subdivision of its issued ordinary shares on 15 August 2011.

The calculation of net assets per share is based on the net assets of the Company of US$84,504,000 (2011: US$70,728,000) and the number of ordinary shares of 521,520,000 (2011: 485,200,000) as at 31 December 2012.

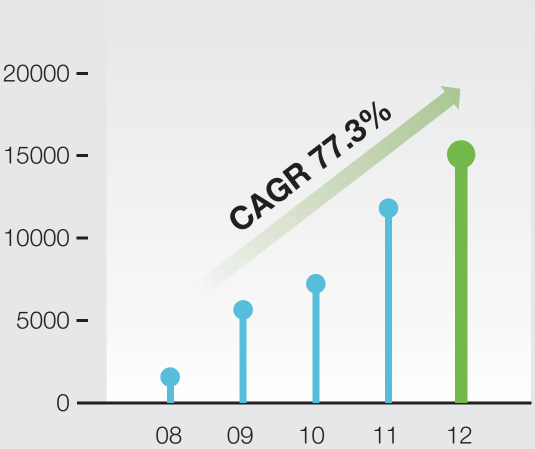
REVENUE
('000 USD)



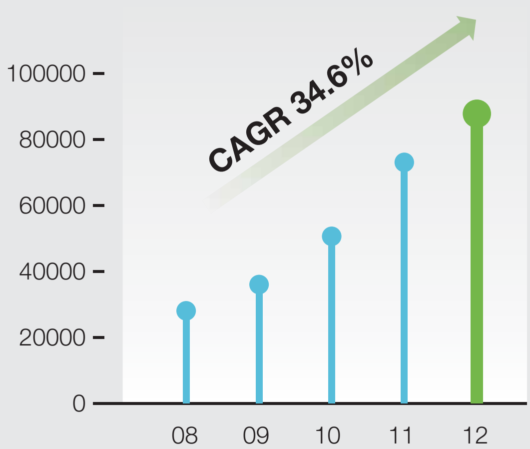
TOTAL ASSETS
('000 USD)



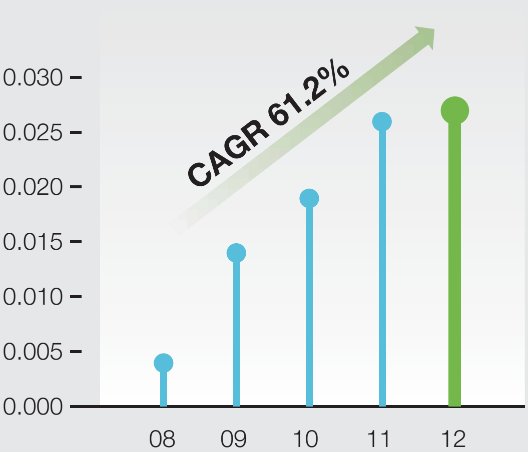
NET PROFIT
('000 USD)



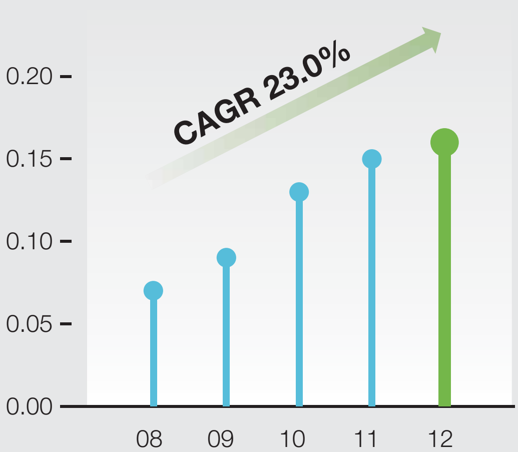
NET ASSETS
('000 USD)



EARNINGS PER SHARE (US$)



NET ASSETS PER SHARE (US$)



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the year ended 31 December 2012, the Group recorded total revenue of approximately US$124.2 million, representing an increase of approximately 27.4% from US$97.5 million in 2011. Gross profit was approximately US$44.5 million, representing an increase of approximately 22.3% from US$36.4 million in 2011. Net profit in 2012 reached approximately US$15.2 million, representing an increase of approximately 28.7% from US$11.8 million in 2011.

In 2012, the Group's business scale kept expanding. Revenue, gross profit and net profit significantly increased due to the group's great efforts in developing the global market, expanding and intensifying sales network, strengthening its research and development capability, raising its brand reputation and effective internal management control.

1. **Continuous strengthening research and development capability**

   The Group has 3 research and development centers located in China, Canada and France respectively. The Group set up an energy-saving technology research institute in Beijing to give technology support and tailor-made building energy management products and solutions services for sizable projects in China. During the year, the Group achieved its breakthrough on self research and energy-saving products by combining the usage of internet and data integration as a cloud-based energy-saving application and launching the Energy-saving Expert Control System ("EEC") which combines the functions of energy management, energy-saving analysis and control. Such system, together with the advanced control software of energy management solutions, can detect the operation of the building's energy facility and make adjustment based on the usage of the building and equipment for persistent and optimal performance. It sharpens the Group's competitive edge in the solutions arena.

2. **Thriving development in the PRC market**

   In order to realize the energy-saving and reduction of emission planning in "12th Five-Year Plan", each local government launched various measures in step with the national policy and stimulated the energy-saving demand. Chongqing city, as one of the eight cities participating in the "National Energy-Saving City", appointed Technovator as the co-operation partner of the energy-saving and reduction of emission planning to conduct energy-saving reform for Chongqing public buildings to build up a monitoring platform of energy consumption and promote and develop city energy-saving management of Chongqing with an aim to become a model city for national authority office buildings and scaled public building energy-saving management system. The first stage of construction completed during the year. It is expected that Technovator will complete over 2 million s.q.m. of building energy-saving reform construction for Chongqing before 2015.

   In the PRC, the building energy management is still a topic of interest as the awareness of building energy-saving is increasing and the respective market is rapidly growing as a result of numerous governments' energy policies and speedy urbanization of second and third tier cities.

   In order to seize the opportunities of the market, the Group actively expanded its business coverage by leveraging on its self developed and advanced products as well as technological prowesses, deploying more resources to explore new business model during the year. Apart from the Chongqing project, the Group also commenced the projects in Shanxi, Xinjiang and Inner Mongolia. In the meanwhile, the Group also expedited the regional and city-level energy-saving projects to provide energy-saving reform services for different types of buildings ranging from government office buildings, school campuses, hospitals to offices in Beijing, Chongqing, Jinan, Hangzhou, Wuhan, Chengdu.

3. **Steady development in overseas markets**

The Group has been making efforts to expand the overseas market. During the year under review, we seized the opportunities of the pressing demand on the refabrication of the existing buildings to lower energy consumption in Europe and America market. The Group realized stable growth in such regions by providing cost-effective energy-saving solutions for customers and expanding the sales and distribution channel in order to focus more on sizable contracts.

We kept on expanding the sales and distribution channel in order to focus more on sizable contracts, developing and commercializing our energy-saving solutions to meet the needs of the customers with many outlets. During the year under review, Distech Controls, Technovator's subsidiary, entered into a strategic partnership with Samsung Techwin, a renowned global supplier in building energy management solutions and energy efficiency consulting services, with an aim to leverage on the complementary advantage to provide customers with stronger building energy management solutions and energy efficiency services. In addition, the Group also actively developed its new business model and introduced suitable strategic partners. It is believed that such actions will be beneficial to the Group's future development.

Emerging markets are considered to be crucial regions for the Group's future development. The Group's first energy-saving project in Burma Junction Square, a mega shopping mall in Yangon, was opened in March 2012. With our good reputation of this project in Yangon, Technovator once again won the second project in Burma – to provide integrated building solutions service for the Ruby Hall National Guest House, which will be the venue of ASEAN Summit in 2014. The construction is expected to complete in the end of 2013.

FINANCIAL REVIEW – CONTINUING OPERATIONS

Revenue

Our total revenue increased by approximately US$26.7 million from approximately US$97.5 million for the year ended 31 December 2011 to approximately US$124.2 million for the year ended 31 December 2012.

Revenue by business segments

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

	For the year ended 31 December				**2012 vs.**
	2011		**2012**		**2011**
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
Building energy-saving solutions:					
Integrated building automation systems	77,519	79.5%	**94,041**	**75.7%**	21.3%
Energy management systems	7,633	7.8%	**13,025**	**10.5%**	70.6%
Others:					
Control security systems	12,090	12.4%	**16,771**	**13.5%**	38.7%
Fire alarm systems	271	0.3%	**372**	**0.3%**	37.3%
Total	97,513	100.0%	**124,209**	**100.0%**	27.4%

Building energy-saving solutions

Revenue from building energy-saving solutions increased by approximately US$21.9 million from approximately US$85.2 million for the year ended 31 December 2011 to approximately US$107.1 million for the year ended 31 December 2012 which was contributed by both our China and overseas markets. For the China market, the Company recorded revenue from building energy-saving solutions of approximately US$60.8 million, representing an increase of approximately 32.5% from 2011. For the overseas market, the Company recorded revenue from building energy-saving solutions of approximately US$46.3 million, representing an increase of approximately 17.9% from 2011.

The increase was primarily due to the Group's grasping the opportunities of demand on building energy-saving arising from the increasing awareness of energy efficiency products globally. Apart from focusing on the research and development of products and marketing, the increase was also attributable to the Group's exploration on new business model as well as strengthening our sales and marketing strategies in the global market, which increases our brand recognition and our experience in international projects.

Others

The two non-core business segments, which are controls security systems and fire alarm systems, recorded a revenue of approximately US$17.1 million for the year ended 31 December 2012, representing an increase of approximately 38.7% as compared with 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				**2012 vs.**
	2011		**2012**		**2011**
	Revenue (US$'000)	% of revenue	**Revenue (US$'000)**	**% of revenue**	
The PRC	58,229	59.7%	**77,900**	**62.7%**	33.8%
U.S.	18,691	19.2%	**23,844**	**19.2%**	27.6%
Canada	2,261	2.3%	**3,978**	**3.2%**	75.9%
Europe	12,578	12.9%	**11,513**	**9.3%**	(8.5%)
Rest of the world	5,754	5.9%	**6,974**	**5.6%**	21.2%
Total	97,513	100.0%	**124,209**	**100.0%**	27.4%

Revenue from The PRC market increased by approximately US$19.7 million to approximately US$77.9 million for the year ended 31 December 2012 from approximately US$58.2 million for the year ended 31 December 2011. This increase was due to numerous governments' energy policies and acceleration of urbanization in second and third tier cities as a result of increasing awareness of building energy-saving efficiency in the country.

Revenue from North America market (including America and Canada) increased by approximately US$6.8 million to approximately US$27.8 million for the year ended 31 December 2012 from approximately US$21.0 million for the year ended 31 December 2011. The increase was mainly attributable to the Group's strategies of effective optimization of products, enhancement of competitive advantage and leading market position.

Revenue from other market (including Europe and the rest of the world) slightly increased by approximately US$0.2 million to approximately US$18.5 million for the year ended 31 December 2012 from approximately US$18.3 million for the year ended 31 December 2011. This increase was attributable to the increasing efforts on marketing of such business segment to procure new projects in different countries all around the world and the increasing demand for building energy-saving solutions and relevant products in the market.

Cost of sales

Cost of sales increased by approximately 30.5%, or approximately US$18.6 million, from approximately US$61.1 million for the year ended 31 December 2011 to approximately US$79.7 million for the year ended 31 December 2012. The increase was primarily due to an increase in cost of raw materials as a result of an overall increase in sales volume and an increase in the number of employees.

Gross profit

Due to the expansion of the Group's business scale, gross profit increased by approximately US$8.1 million from approximately US$36.4 million for the year ended 31 December 2011 to approximately US$44.5 million for the year ended 31 December 2012. Gross profit margin slightly decreased from approximately 37.3% for the year ended 31 December 2011 to approximately 35.9% for the year ended 31 December 2012.

Other revenue

Other revenue decreased from approximately US$1.3 million for the year ended 31 December 2011 to approximately US$1.2 million for the year ended 31 December 2012, due to a approximately US$0.1 million decrease in value added tax refunds by the PRC tax bureau for the sale of the Group's building energy-saving solutions, partially offset by a slightly increase in government grant income in view of its high and new technology enterprise status.

Other net gain/(loss)

Other net gain/(loss) increased from approximately US$0.06 million loss for the year ended 31 December 2011 to approximately US$0.04 million gain for the year ended 31 December 2012 primarily due to the increase in foreign exchange.

Selling and distribution costs

Selling and distribution costs increased by approximately US$0.9 million, from approximately US$8.5 million for the year ended 31 December 2011 to approximately US$9.4 million for the year ended 31 December 2012. The increase was primarily due to an increase of approximately US$0.4 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 7.6% for the year ended 31 December 2012 from 8.7% for the year ended 31 December 2011.

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately US$2.4 million, from approximately US$11.0 million for the year ended 31 December 2011 to approximately US$13.4 million for the year ended 31 December 2012. The increase was primarily due to an increase of approximately US$1.6 million in administrative staff costs, an increase of approximately US$0.5 million in provision for doubtful debt, partially offset by a decrease of approximately US$0.2 million operating lease charges.

Research and development expenses

Research and development expenses increased from approximately US$3.0 million for the year ended 31 December 2011 to approximately US$3.1 million for the year ended 31 December 2012, mainly due to the increase of the Group's effort in research and development activities.

Finance costs

Finance costs slightly increased from approximately US$0.5 million for the year ended 31 December 2011 to approximately US$0.6 million for the year ended 31 December 2012. The increase was primarily due to the increase in interest on loans and borrowings.

Income tax

Income tax increased from approximately US$2.8 million for the year ended 31 December 2011 to approximately US$4.0 million for the year ended 31 December 2012. The increase was mainly due to an increase in the Group's profit before taxation in 2012.

Profit for the year

As a result of the foregoing factors, Net profit for the year increased by approximately 28.7% from approximately US$11.8 million for the year ended 31 December 2011 to approximately US$15.2 million for the year ended 31 December 2012. Net profit margin slightly increased from approximately 12.1% for the year ended 31 December 2011 to approximately 12.2% for the year ended 31 December 2012.

Working capital and financial resources

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

	As at 31 December	
	2011 (US$'000)	**2012** **(US$'000)**
Inventories	14,807	**12,208**
Trade and other receivables	31,136	**47,888**
Trade and other payables	26,562	**44,052**
Average inventories turnover days	75	**62**
Average trade and other receivables turnover days	103	**116**
Average trade and other payables turnover days	143	**162**

The Group's inventories decreased from approximately US$14.8 million as at 31 December 2011 to approximately US$12.2 million as at 31 December 2012 primarily due to effective inventory management policy.

The Group's average inventory turnover days decreased from approximately 75 days in 2011 to approximately 62 days for the year ended 31 December 2012 to cope with the Group's inventory management policy.

The Group's trade and other receivables amounted to approximately US$31.1 million and approximately US$47.9 million as at 31 December 2011 and 2012 respectively. Such increase in trade and other receivables is due to the increase in the revenue of the Group as well as its global expansion.

The Group's average trade and other receivables turnover days were approximately 103 days and 116 days for the year ended 31 December 2011 and 2012 to cope with the Group's expansion.

The Group's trade and other payables increased from approximately US$26.6 million as at 31 December 2011 to approximately US$44.1 million as at 31 December 2012 resulting primarily from its global expansion and capability to negotiate for longer credit periods.

The Group's average trade and other payables turnover days was approximately 143 days and 162 days for the year ended 31 December 2011 and 2012 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 2012, the Group has financed its operations primarily through cash flow from operations, bank borrowings and proceeds from the global offering. As at 31 December 2012, the Group had approximately US$40.5 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 2012, the Group's indebtedness consisted of short-term loan of approximately US$7.9 million, average annual interest rate is 5.8%, long-term loan of approximately US$7.1 million, average annual interest rate is approximately 4.8% and obligations under finance lease of approximately US$0.2 million. The short-term loan mainly represented an unsecured term loan of approximately US$3.2 million from CITIC, an unsecured term loan of approximately US$1.6 million from CMB, a term loan of approximately US$3.0 million and secured bank overdraft of approximately US$0.08 million from HSBC and other financial institutions. The increase in the Group's indebtedness in 2012 was mainly due to the payment of due loans.

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.

Gearing ratio as at 31 December 2012, defined as loans and borrowings divided by total assets, is approximately 10.2% (2011: approximately 6.5%).

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.

Pledge of assets

As at 31 December 2012, 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$9.2 million as at 31 December 2011 to approximately US$14.8 million as at 31 December 2012 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 2011 and 2012. The Group's operating lease commitments relate primarily to its leases of office spaces, workspaces and machinery.

	2011 (US$'000)	**2012 (US$'000)**
Within one year	965	**1,021**
After one year but within five years	1,714	**1,458**
Total	2,679	**2,479**

The Group had capital commitments contracted for approximately US$4.3 million in the financial statements as at 31 December 2012.

Contingent liabilities

As at 31 December 2012, 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 derivative contracts that are indexed to the shareholders of the company (the "shareholders") 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.

On 23 July 2012 (the "Date of Grant"), the Company granted 48,500,000 share options to subscribe for a total of 48,500,000 ordinary shares in the share capital of the Company, subject to acceptance of the grantees, under the share option scheme adopted by the Company on 18 May 2012.

Employment, Training and Development

As at 31 December 2012, the Group had a total of 440 employees, an increase of 26% compared to 349 employees as at 31 December 2011. Total staff costs for 2012 increased to approximately US$12.1 million from approximately US$9.8 million for the year ended 2011, 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 Stock Exchange on 27 October 2011 with a total of 122,000,000 offer shares. The net proceeds raised from the offering was approximately HK$74.6 million (equivalent to approximately US$9.6 million) (the "Net Proceeds"). We intend to utilize the net proceeds from the offering in accordance with the proposed applications set out in the section headed "Use of Proceeds" in the prospectus of the Company dated 17 October 2011. As at the date of this report, approximately US$3 million has been used as general working capital, and for sales and marketing development. We have deposited the unused Net Proceeds with licensed banks in Hong Kong and Singapore, and are ready for use to pursue purchase opportunities, strategic alliances as well as mergers and acquisitions targets.

Merger and Acquisition

For the year ended 31 December 2012, no acquisition or disposal of subsidiaries or associates was made by the group.

Significant investment

For the year ended 31 December 2012, the group had no significant investment.

PROSPECT

The need to increase energy efficiency and savings while implementing green and sustainable measures enables the global building energy-saving market to continue its momentum. In addition, with regulations that imposes certain energy efficiency standards for buildings in many countries of the globe, building owners and facility managers are widely opting to use building energy management products and solutions. Moreover, encouraging policies launched by those governments also stimulate the demand of building automation systems.

Benefiting from economic recovery and unfolding construction projects, the building energy-saving market is expected to witness steady growth in the coming years. We believe that such growth will bring boundless opportunities of development for the industry. Looking forward, we will continue to focus on our business development plans with an objective to capitalise on our competitive advantages to capture business opportunities during the development of the industry.

Keeping Focus on Research and Development and Developing Product Solutions
We will continue to maintain the advantage of our research and development teams and further enhance the co-operation among our research and development centers. We will focus on product and solutions development to seize business opportunities through developing and promoting innovative products and solutions.

In the meanwhile, the Group will continue to collaborate with Tsinghua University and other research institutions to expedite product development and technology innovation by leveraging on our advantage of our talents and technological resources.

Expanding Sales Channels and Seizing the Opportunities of Domestic Market
The Chinese government emphasizes the importance of energy-saving and reduction of emission in "12th Five-Year Plan" while the awareness of domestic building energy-saving solutions keeps increasing, thus numerous statutory energy policies are gradually launched. Thanks to the gradual development of its economy, China speeds up the urbanization of second and third tier cities, thus immense business opportunities are brought to the building energy-saving market under the drive of favorable measures in the country and demand.

The Group has been focusing on expanding the sales of our energy-saving solutions and products and customer base. The Group will utilize our global reputation, existing nationwide presence and cumulative experience in new products and solutions development to strengthen sale channels. Leveraging on our competitive pricing edge of products and services, it is believed that we are well-equipped with competitive advantages in the building energy-saving market.

In the meanwhile, we will devote our resources to exploring new business models, expanding customer base and addressable market and enhancing our business presences.

Extending Business Realm and Promoting Internationalized Development
Actively expanding the overseas market has long been one of the Group's core strategies. The Group will continue to deepen and develop international market and leverage the co-operation with its distributors and system integrators to extend business areas and sales footprints. As for the customer base, we will further consolidate the co-operation with existing customers which are mainly sizable and chain enterprises.

Apart from promoting growth by the its own advantages, the Group has been establishing overseas subsidiaries with well-known overseas industry peers to form a strategic alliance for stronger brand and experience of international projects. In the future, the Group will continue to seek for companies with innovative technology and capabilities to form strategic partnerships in order to raise its scale, expand its product variety and portfolio, widen its geographic reach and enhance the rapid growth of the Group. On the other hand, the Group will continue to make efforts on exploring the growth of emerging markets while the ASEAN Free Trade Area is one of the targets for the Group's future business development.

In a nutshell, the Company will take advantage of the favourable opportunities offered by the soaring demand of the energy-saving building, and consolidate our leading position in the industry. Given our advantage focusing on research and development of products and solutions, our efforts on expanding global sales and marketing distribution, actively pursuit for suitable strategic partnerships, we are confident of creating value for our shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhao Xiaobo (趙曉波), aged 43, 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).

Mr. Seah Han Leong (謝漢良), aged 49, 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.

Mr. Seah was admitted as ordinary member of the Singapore Institute of Directors on 18 April 2012.

Non-Executive Directors

Mr. Lu Zhicheng (陸致成), aged 64, 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.

Dr. Li Jisheng (李吉生), aged 47, 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 51, 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 (北京同方凌訊科技有限公司) 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.

Mr. Ng Koon Siong (黃坤商), aged 48, 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.

Independent Non-Executive Directors

Mr. Fan Ren Da Anthony (范仁達), aged 52, 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 the remuneration committee, and member of the 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 the remuneration committee, and member of the audit and nomination committees,
September 2011 – present	Guodian Technology & Environment Group Corporation Limited	Independent non-executive Director and chairman of the audit committee
March 2012 – present	China Development Bank International Investment Limited, listed on the Stock Exchange	Independent non-executive Director and member of the remuneration nomination committees

Mr. Chia Yew Boon (謝有文), aged 54, 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 47, 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.

Ms. Chen also serves as a non-executive director of Bio-Dynamic Group Limited, a company whose shares are listed and traded on the Main Board of the Stock Exchange, since 6 September 2012.

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 37, 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.

Mr. Étienne Veilleux, aged 43, 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 52, 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 2012.

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 2012 are set out in note 16 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2012 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 48 to 112 of this annual report.

DIVIDENDS

The Company has not declared and paid any dividend during the year ended 31 December 2012. The Board does not recommend any final dividend for the year ended 31 December 2012.

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 2012, the Company does not have reserves available for distribution to equity shareholders. Details of the reserves of the Company as at 31 December 2012 are set out in note 25 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2012 amounted to approximately USD30,000 (2011: USD1,300).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2012 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 2012 are set out in note 25 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2012 were:

Executive Directors
Mr. Zhao Xiaobo
Mr. Seah Han Leong

Non-Executive Directors
Mr. Lu Zhicheng *(Chairman)*
Dr. Li Jisheng
Mr. Liu Tianmin
Mr. Ng Koon Siong
Ms. Shi Shanshan (resigned on 28 August 2012)
Mr. Chow Dah-Jen (alias David Chow) (appointed on 28 August 2012 and resigned on 31 December 2012)

Independent Non-Executive Directors
Mr. Fan Ren Da Anthony
Mr. Chia Yew Boon
Ms. Chen Hua

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 2012 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. Liu Tianmin, Mr. Fan Ren Da Anthony and Mr. Chia Yew Boon 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 16 to 24 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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 2012.

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

As at 31 December 2012, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of 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 and chief executive	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Seah Han Leong	Interest in a controlled corporation[1]	36,000,000	6.90%
	Interest in a controlled corporation[2]	8,000,000	1.53%
	Beneficial owner	16,120,000[3]	3.09%
	Beneficial owner	4,800,000[4]	0.92%[5]
Mr. Lu Zhicheng	Beneficial owner	4,800,000[4]	0.92%[5]
Mr. Zhao Xiaobo	Beneficial owner	12,120,000[3]	2.32%
	Beneficial owner	4,800,000[4]	0.92%[5]
Mr. Leung Lok Wai	Beneficial owner	3,000,000[4]	0.58%[5]

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) 12,120,000 of these Shares were issued by the Company on 20 July 2012 upon exercise of the share options by all the grantees pursuant to Technovator Employee Share Option Scheme 2009.

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

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

Save as disclosed above, as at 31 December 2012, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

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 our long term growth and profitability. Options to subscribe for an aggregate of 36,320,000 Shares were granted to five employees including two executive Directors and three other employees of the Group on 12 August 2009.

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

Details of the movement of share options granted the Technovator Employee Share Option Scheme 2009 as at 31 December 2012 are as follows:

	Number of shares issuable/ issued under the share options		
Name	**Outstanding as at 1 January 2012**	**Issued upon exercise of shares options during the year end 31 December 2012[1]**	**Outstanding as at 31 December 2012**
Director			
Zhao Xiaobo	12,120,000	12,120,000	0
Director and substantial shareholder			
Seah Han Leong	12,120,000	12,120,000	0
Other Employees			
Xu Zhenxi	4,000,000	4,000,000	0
Chen Fangju	4,040,000	4,040,000	0
Qiu Duanyun	4,040,000	4,040,000	0
Total	36,320,000	36,320,000	0

(1) The closing price per Share immediately before 5 July 2012 (the date on which share options were exercised) was HK$1.16.

(ii) Distech Controls Stock Option Plan

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

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

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

Details of the movement of share options granted the Distech Controls Stock Option Plan as at 31 December 2012 are as follows:

	Number of shares issuable under the share options		
Name	Outstanding as at 1 January 2012	Forfeited during the year ended 31 December 2012	Outstanding as at 31 December 2012
Employees	1,770,000	(20,000)	1,750,000
Total	1,770,000	(20,000)	1,750,000

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 2012.

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

SHARE OPTION SCHEME

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

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

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

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

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

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

Details of such share options granted under the Share Option Scheme as at 31 December 2012 are as follows:

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

Notes:

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

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

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

Save as disclosed above, no options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2012.

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.

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 2012, 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	17.64%
	Interest in a controlled corporation[1]	80,000,000	15.34%
Resuccess Investments Limited	Beneficial owner	80,000,000	15.34%
Dragon Point Limited	Beneficial owner	108,436,320	20.79%
Zana China Fund L.P.	Interest in a controlled corporation[2]	108,436,320	20.79%

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 2012, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 2012.

CONNECTED TRANSACTION

On 26 September 2012, Distech Controls, a non-wholly owned subsidiary of the Company, entered into a share purchase agreement with Groupe Arcom, pursuant to which Distech Controls agreed to purchase 4,310,407 Class A common shares of the issued and outstanding shares of the capital of Distech Controls from Groupe Arcom for cancellation to allow Groupe Arcom to exist their investment. The consideration of the repurchase is CAD$5,762,505.55, payable upon the execution of the share purchase agreement.

Immediately prior to the completion of the said share purchase agreement, Groupe Arcom held 11.15% of the equity interest in Distech Controls, and therefore was a connected person of the Company. Upon completion of the said share purchase agreement, Groupe Arcom ceased to be a shareholder of Distech Controls and the Company's equity interest in Distech Controls increased from 56.70% to 63.81% on 26 September 2012.

Details of such transaction are set out in the announcement of the Company dated 2 October 2012 and the circular of the Company dated 31 October 2012.

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 was a substantial shareholder of a subsidiary of the Company, Distech Controls, and held approximately 11.14% of its issued shares until Distech Controls repurchased these shares on 26 September 2012. 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 until Groupe Arcom ceased to be a shareholder of Distech Controls on 26 September 2012.

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 2012, the rent paid by Technovator Beijing to Tongfang was RMB1.30 million, 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.

   The maximum annual transaction amount under the Comtec Lease for the year ended 31 December 2012, based on the rent payable by Comtec to La Société IMMO Delta B, was in the amount of EUR105,600.

   The Comtec Lease ceased to be a continuing connected transaction of the Group when Groupe Arcom ceased to be a shareholder of Distech Controls on 26 September 2012.

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 2012, the Group sold products to Tongfang, its subsidiaries and their respective associates in the amount of approximately RMB86.7 million, which was within the approved cap of RMB88 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 2012, the Group purchased such raw materials from Tongfang, its subsidiaries and their respective associates in the amount of approximately RMB8.9 million, which was within the approved cap of RMB16 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, KPMG, 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, KPMG, 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.

The material related party transactions disclosed under note 28 to the financial statements constituted connected transactions or continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). None of these related party transactions constitute connected transaction or continuing connected transactions as defined under the Listing Rules that is required to be disclosed, except for those described in the sections headed "Connected Transaction" and "Continuing Connected Transactions" in this report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

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 2012.

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 2012 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 three 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" and "Share Option Scheme" above and note 23 to the financial statements.

None of the Directors waived any emoluments during the year.

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 11.0% (2011: 11.4%) and 26.5% (2011: 25.9%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 4.1% (2011: 6.2%) and 16.1% (2011: 18.5%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2012, 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 and KPMG LLP will retire and, being eligible, offer themselves for reappointment. Resolutions 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 2012.

BANK LOANS

Details of bank loans of the Group as at 31 December 2012 are set out in note 22 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.

On behalf of the Board

Lu Zhicheng
Chairman

21 March 2013

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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2012, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Main Board Listing Rules) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012).

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 2012 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 2012.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2012 and the date of this annual report, the Board comprised two executive Directors, four non-executive Directors and three independent non-executive Directors:

Executive Directors
Mr. Zhao Xiaobo *(Chief Executive Officer and Authorised Representative)*
Mr. Seah Han Leong *(Chief Operating Officer and Authorised Representative)*

Non-executive Directors
Mr. Lu Zhicheng *(Chairman)*
Dr. Li Jisheng
Mr. Liu Tianmin
Mr. Ng Koon Siong

Independent Non-executive Directors
Mr. Fan Ren Da Anthony
Mr. Chia Yew Boon
Ms. Chen Hua

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. Approvals have to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

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.

Board meetings were held from time to time to discuss the business strategies of the Group; monitor financial and operational performance; approve the annual and interim results of the Group; and discuss the corporate governance functions of the Board.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

The Directors have been informed of the requirement under Code Provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training by attending briefings, seminars, conferences or reading materials with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

Name of Director	Corporate Governance/ Updates on Laws, Rules and Regulations	Accounting/Financial/ Management or Other Professional Skills
Executive Directors		
Mr. Zhao Xiaobo	✓	✓
Mr. Seah Han Leong	✓	✓
Non-executive Directors		
Mr. Lu Zhicheng *(Chairman)*	✓	✓
Dr. Li Jisheng	✓	✓
Mr. Liu Tianmin	–	✓
Mr. Ng Koon Siong	–	✓
Ms. Shi Shanshan (resigned on 28 August 2012)	–	✓
Mr. Chow Dah-Jen (alternate to Ms. Shi Shanshan until appointed as a Director on 28 August 2012. Resigned on 31 December 2012)	–	✓
Independent non-executive Directors		
Mr. Fan Ren Da Anthony	✓	✓
Mr. Chia Yew Boon	–	✓
Ms. Chen Hua	–	✓

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 Rules 3.10(1) and (2) and 3.10A 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. Based on the content of such confirmations, the Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

MEETINGS

The Board meets regularly either in person or through electronic means of communications. The number of the Board meetings and general meetings held and the attendance of each Director at these meetings for the year ended 31 December 2012 are set out as follows:

	Board Meeting	General Meeting
No. of meetings held	4	4
No. of meetings attended		
Executive Directors		
Mr. Zhao Xiaobo	4	4
Mr. Seah Han Leong	4	3
Non-Executive Director		
Mr. Lu Zhicheng *(Chairman)*	4	4
Dr. Li Jisheng	4	1
Mr. Liu Tianmin	4	0
Mr. Ng Koon Siong	4	2
Ms. Shi Shanshan (resigned on 28 August 2012)	2/3	0/2
Mr. Chow Dah-Jen (alternate to Ms. Shi Shanshan until appointed as a Director on 28 August 2012. Resigned on 31 December 2012)	1/1	0/2
Independent Non-Executive Directors		
Mr. Fan Ren Da Anthony	4	3
Mr. Chia Yew Boon	4	2
Ms. Chen Hua	4	0

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

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. Each of the Joint Company Secretaries has confirmed that he/she had attained no less than 15 hours of relevant professional training during the year ended 31 December 2012.

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.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors had entered into a service contract with the Company for an initial term of 1 year commencing from 27 October 2011.

All the service contracts of non-executive Directors and independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party upon a three-month prior written notice.

BOARD COMMITTEES

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference. 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. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company.

During the year ended 31 December 2012, the Audit Committee mainly performed following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2012 and the audited annual results for the year ended 31 December 2012, met with the external auditors to discuss such interim results and annual results (without the Company's management being present), and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2012, 2 meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	**Attendance/ Number of Audit Committee Meetings**
Ms. Chen Hua *(Chairman)*	2/2
Mr. Fan Ren Da Anthony	2/2
Mr. Chia Yew Boon	1/2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 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.

During the year ended 31 December 2012, the Remuneration Committee mainly performed following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2012.

During the year ended 31 December 2012, 1 meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/ Number of Remuneration Committee Meeting
Mr. Fan Ren Da Anthony *(Chairman)*	1/1
Mr. Chia Yew Boon	0/1
Mr. Ng Koon Siong	1/1

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (USD000')	Number of persons
301–400	3
401–500	–
501–600	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 and 9 to the financial statements.

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.

During the year ended 31 December 2012, the Nomination Committee mainly performed following duties:

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessing their independence; and

– reviewed the structure, size and composition of the Board during the year of 2012.

During the year ended 31 December 2012, 1 meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	**Attendance/ Number of Nomination Committee Meeting**
Mr. Chia Yew Boon *(Chairman)*	1/1
Mr. Fan Ren Da Anthony	1/1
Mr. Lu Zhicheng	1/1

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. The Board has held meetings from time to time to: (a) review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors; and (c) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

MEMORANDUMS AND ARTICLES OF ASSOCIATION

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2012.

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 directors acknowledge their responsibilities for preparing the accounts of the Company. 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 in Hong Kong, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

EXTERNAL AUDITORS' REMUNERATION

The Company has re-appointed KPMG as the external auditor in Hong Kong and appointed KPMG LLP to replace Shine Wing LLP as the Company's registered author in Singapore during the year ended 31 December 2012. The external auditors are refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. For the year ended 31 December 2012, the total fee paid/payable in respect of audit and non-audit services provided by the Company's external auditors is set out below:

	HK$'000
Audit services	2,800
Non-audit services	23

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 Group's internal control department has reported internal control fact findings to the Board and no major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department 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, 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 2012.

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.

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 48 to 112, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012 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 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Revenue	3,4	**124,209**	97,513
Cost of sales		**(79,704)**	(61,118)
Gross profit		**44,505**	36,395
Other revenue	5	**1,167**	1,293
Other net gain/(loss)		**36**	(60)
Selling and distribution costs		**(9,393)**	(8,520)
Administrative and other operating expenses		**(13,397)**	(11,017)
Research and development expenses		**(3,149)**	(2,956)
Profit from operations		**19,769**	15,135
Finance costs	6(a)	**(579)**	(542)
Profit before taxation		**19,190**	14,593
Income tax	7(a)	**(3,981)**	(2,777)
Profit for the year		**15,209**	11,816
Profit attributable to:			
Equity shareholders of the Company		**13,392**	10,445
Non-controlling interests		**1,817**	1,371
Profit for the year		**15,209**	11,816
Earnings per share	11		
Basic (US$)		**0.027**	0.027
Diluted (US$)		**0.027**	0.026

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in United States dollars)

	2012 US$'000	2011 US$'000
Profit for the year	15,209	11,816
Other comprehensive income for the year		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	676	699
Total comprehensive income for the year	15,885	12,515
Attributable to:		
Equity shareholders of the Company	13,942	11,179
Non-controlling interests	1,943	1,336
Total comprehensive income for the year	15,885	12,515

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment	12	**7,161**	3,431
Intangible assets	13	**16,953**	14,125
Goodwill	14	**16,257**	15,914
Other financial assets	15	**5,348**	–
Deferred tax assets	24	**401**	287
		46,120	33,757
Current assets			
Inventories	17	**12,208**	14,807
Trade and other receivables	18	**47,888**	31,136
Gross amounts due from customers for contract work	21	**824**	508
Cash and cash equivalents	19	**40,505**	27,940
		101,425	74,391
Current liabilities			
Trade and other payables	20	**44,052**	26,562
Gross amounts due to customers for contract work	21	**199**	357
Loans and borrowings	22(b)	**7,922**	3,591
Obligations under finance leases		**12**	60
Income tax payable		**1,523**	1,064
		53,708	31,634
Net current assets		**47,717**	42,757
Total assets less current liabilities		**93,837**	76,514

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET *(Continued)*

At 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Non-current liabilities			
Loans and borrowings	22(b)	7,062	3,382
Obligations under finance leases		171	27
Deferred income		–	87
Deferred tax liabilities	24	2,100	2,290
		9,333	5,786
NET ASSETS		84,504	70,728
CAPITAL AND RESERVES			
Share capital	25	38,121	33,786
Reserves		39,781	31,227
Total equity attributable to equity shareholders of the Company		77,902	65,013
Non-controlling interests		6,602	5,715
TOTAL EQUITY		84,504	70,728

Approved and authorised for issue by the board of directors on 21 March 2013

Zhao Xiaobo	)	
	)	*Directors*
Seah Han Leong	)	

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment		**254**	16
Investments in subsidiaries	16	**20,800**	20,682
		21,054	20,698
Current assets			
Inventories		**83**	91
Trade and other receivables	18	**452**	216
Cash and cash equivalents	19	**11,739**	10,585
		12,274	10,892
Current liabilities			
Trade and other payables	20	**2,521**	1,452
		2,521	1,452
Net current assets		**9,753**	9,440
Total assets less current liabilities		**30,807**	30,138
Non-current liabilities			
Obligations under finance leases		**157**	–
Deferred income		**–**	71
NET ASSETS		**30,650**	30,067
CAPITAL AND RESERVES	25		
Share capital		**38,121**	33,786
Reserves		**(7,471)**	(3,719)
TOTAL EQUITY		**30,650**	30,067

Approved and authorised for issue by the board of directors on 21 March 2013

Zhao Xiaobo)
Seah Han Leong) *Directors*

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(Expressed in United States dollars)

	Attributable to equity shareholders of the Company								
	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 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 by a subsidiary	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 and 1 January 2012	33,786	2,524	1,640	1,320	4,739	21,004	65,013	5,715	70,728
Changes in equity for 2012:									
Profit for the year	–	–	–	–	–	13,392	13,392	1,817	15,209
Other comprehensive income	–	–	550	–	–	–	550	126	676
Total comprehensive income for the year	–	–	550	–	–	13,392	13,942	1,943	15,885
Equity settled share-based transactions	–	–	–	411	–	–	411	–	411
Share issued under Pre-IPO Share Option Scheme	4,335	–	–	(1,080)	–	–	3,255	–	3,255
Acquisition of non-controlling interests	–	–	314	–	(5,033)	–	(4,719)	(1,056)	(5,775)
Appropriation to statutory reserves	–	1,373	–	–	–	(1,373)	–	–	–
Balance at 31 December 2012	38,121	3,897	2,504	651	(294)	33,023	77,902	6,602	84,504

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Operating activities			
Profit before taxation		**19,190**	14,593
Adjustments for:			
Depreciation	6(c)	**913**	722
Amortisation of intangible assets	6(c)	**2,989**	2,844
Impairment losses on trade and other receivables	6(c)	**763**	226
Finance costs	6(a)	**579**	542
Interest income	5	**(38)**	(29)
Net loss/(gain) on disposal of property, plant and equipment		**2**	(11)
Equity-settled share-based payment expenses	6(b)	**411**	340
Foreign exchange loss/(gain)		**228**	(339)
		25,037	18,888
Decrease/(increase) in inventories		**2,599**	(4,359)
Increase in trade and other receivables		**(22,863)**	(6,384)
Increase in trade and other payables		**17,490**	5,205
Change in gross amounts due from/to customers for contract work		**(474)**	(409)
(Decrease)/Increase in deferred income		**(87)**	37
Cash generated from operations		**21,702**	12,978
Income tax paid		**(3,846)**	(2,388)
Net cash generated from operating activities		**17,856**	10,590
Investing activities			
Payments for the purchase of property, plant and equipment		**(4,579)**	(1,411)
Expenditure on purchase of intangible assets		**(5,847)**	(3,766)
Proceeds from sale of property, plant and equipment		**7**	188
Proceeds from sale of intangible assets		**177**	261
Interest received		**38**	29
Payment for acquisition of a subsidiary		**–**	(37)
Net cash used in investing activities		**(10,204)**	(4,736)

CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 US$'000	2011 US$'000
Financing activities			
Proceeds from issuance of shares		**3,255**	15,693
Share issuance costs		**–**	(6,135)
Proceeds from loans and borrowings		**11,936**	1,186
Repayment of loans and borrowings		**(4,129)**	(3,875)
Capital element of finance lease rentals paid		**96**	(111)
Interest element of finance lease rentals paid		**(4)**	(9)
Acquisition of non-controlling interests		**(5,775)**	–
Other borrowing costs paid		**(575)**	(533)
Net cash generated from financing activities		**4,804**	6,216
Net increase in cash and cash equivalents		**12,456**	12,070
Cash and cash equivalents at the beginning of the year		**27,940**	15,243
Effect of foreign exchange rate changes		**109**	627
Cash and cash equivalents at the end of the year	19	**40,505**	27,940

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. These 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 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

These financial statements are presented in United States Dollars ("US$"), rounded to the nearest thousand except for per share data. 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 29.

2 Significant accounting policies *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to HKFRS 7, *Financial instruments: Disclosures – Transfer of financial assets*. These amendments require certain disclosures to be included in the financial statements in respect of all transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(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.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders 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 shareholders 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.

2 Significant accounting policies *(Continued)*

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

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 is 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.

(f) Other investments in debt and equity securities

The Group's and the Company'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)).

2 Significant accounting policies *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

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.

(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 or valuation 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:

– Freehold land is not depreciated	
– 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.

2 Significant accounting policies *(Continued)*

(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 has sufficient resources and intention 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.

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.

2 Significant accounting policies *(Continued)*

(j) Leased assets *(Continued)*

(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.

(k) Impairment of assets

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

Investments in debt and 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.

2 Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

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

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 these financial assets 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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each 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

2 Significant accounting policies *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

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 if 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 year in which the reversals are recognised.

(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.

2 Significant accounting policies *(Continued)*

(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 at the balance sheet the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the 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 using the effective interest method, 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.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(t)(i), trade and other payables are 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.

2 Significant accounting policies *(Continued)*

(r) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. 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 capital) 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.

(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.

2 Significant accounting policies *(Continued)*

(s) Income tax *(Continued)*

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 each 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.

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 company or 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 company or 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.

2 Significant accounting policies *(Continued)*

(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).

(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.

2 Significant accounting policies *(Continued)*

(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.

(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.

2 Significant accounting policies *(Continued)*

(v) Translation of foreign currency transactions

Foreign currency transactions during the year 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.

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 an associate or joint venture of a member of a group of which the entity is a member;

(c) Both entities 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 members of the family of a person 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 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 2011 and 2012 are as follows:

	2012 US$'000	2011 US$'000
Sales of goods	99,754	85,095
Provision of services	14,643	4,371
Contract revenue	9,812	8,047
	124,209	97,513

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.

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 years ended 31 December 2011 and 2012 is set out below:

	BAS – PRC		BAS – North America		BAS – Europe		BAS- Other countries		CSS – PRC		FAS – PRC		EMS – PRC		Total	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Revenue from external customers	47,732	38,235	27,822	20,952	11,513	12,578	6,974	5,754	16,771	12,090	372	271	13,025	7,633	124,209	97,513
Inter-segment revenue	6,156	6,694	323	921	–	–	–	22	–	–	–	–	–	–	6,479	7,637
Reportable segment revenue	53,888	44,929	28,145	21,873	11,513	12,578	6,974	5,776	16,771	12,090	372	271	13,025	7,633	130,688	105,150
Reportable segment profit	9,315	8,807	4,043	4,112	1,654	2,240	1,002	1,210	1,087	531	57	22	6,702	3,630	23,860	20,552
Finance costs	(176)	(87)	(171)	(420)	(232)	(35)	–	–	–	–	–	–	–	–	(579)	(542)
Depreciation and amortisation for the year	(619)	(411)	(2,113)	(2,140)	(823)	(832)	–	–	(193)	(111)	(4)	(2)	(150)	(70)	(3,902)	(3,566)

4 Segment reporting *(Continued)*

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

	2012 US$'000	2011 US$'000
Revenue		
Reportable segment revenue	130,688	105,150
Elimination of inter-segment revenue	(6,479)	(7,637)
Consolidated revenue	124,209	97,513
Profit		
Reportable segment profit	23,860	20,552
Elimination of inter-segment profits	48	(552)
Reportable segment profit derived from Group's external customers	23,908	20,000
Depreciation and amortisation	(3,902)	(3,566)
Finance costs	(579)	(542)
Unallocated head office and corporate expenses	(237)	(1,299)
Consolidated profit before taxation	19,190	14,593

(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.

	2012 US$'000	2011 US$'000
Revenue derived from:		
PRC	77,900	58,229
United States	23,844	18,691
France	7,605	7,833
Canada	3,978	2,261
Switzerland	2,194	1,687
The Netherlands	535	1,107
Other countries	8,153	7,705
	124,209	97,513

5 Other revenue

	2012 US$'000	2011 US$'000
Government grants (note)	**1,060**	1,030
Interest income	**38**	29
Others	**69**	234
	1,167	1,293

Note: In 2011 and 2012, 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.

6 Profit before taxation

Profit before taxation is arrived at after charging:

	2012 US$'000	2011 US$'000
(a) Finance costs		
Interest on loans and borrowings wholly repayable within five years	**575**	532
Other financial costs	**4**	10
	579	542
(b) Staff costs		
Salaries and other benefits	**11,038**	8,842
Contributions to defined contribution retirement schemes	**634**	582
Equity settled share-based payment expenses (note 23)	**411**	340
	12,083	9,764

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 2012 (2011: 20%). Contributions to the Scheme vest immediately.

6 Profit before taxation *(Continued)*

(b) Staff costs *(Continued)*

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.

	2012 US$'000	2011 US$'000
(c) Other items		
Cost of inventories (note 17(b))	**79,347**	55,674
Amortisation of intangible assets	**2,989**	2,844
Depreciation	**913**	722
Impairment losses on trade and other receivables	**763**	226
Operating lease charges in respect of:		
– motor vehicles, plant and machinery	**580**	881
– properties	**495**	221
Auditors' remuneration	**575**	723

7 Income tax

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

	2012 US$'000	2011 US$'000
Current tax		
Provision for the year	**4,297**	2,869
Under/(over)-provision in respect of prior years	**20**	(18)
	4,317	2,851
Deferred tax		
Origination and reversal of temporary differences (note 24(a))	**(336)**	(74)
	3,981	2,777

7 Income tax *(Continued)*

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

	Note	2012 US$'000	2011 US$'000
Profit before taxation		**19,190**	14,593
Notional tax expense calculated at the corporate tax rate of the Company	(i)	**3,263**	2,481
Effect of rate differential of entities operating in different tax jurisdictions	(ii)	**1,971**	1,597
Tax effect on non-deductible expenses		**365**	162
Tax effect of non-taxable income		**(159)**	(384)
Effect of tax concession	(iii)	**(1,929)**	(1,257)
Tax effect of unused tax losses not recognised		**450**	292
Tax effect on recognition of previously unrecognised tax losses		**–**	(96)
Under/(over)-provision in prior years		**20**	(18)
Actual income tax expense		**3,981**	2,777

Notes:

(i) The Company is subject to Singapore corporate income tax at 17% for the year ended 31 December 2012 (2011:17%). No provision for Singapore income tax was made because the Company sustained tax losses for the years ended 31 December 2011 and 2012.

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

Distech Controls Inc. ("Distech Controls") and e2 Solutions Inc. are subject to Canadian corporate income tax at 27% for the year ended 31 December 2012 (2011: 28.4%). Corporate income tax comprises of federal and provincial taxes which also apply to investment income earned by general corporations other than capital gains and dividends received from Canadian corporations. The rate that applies to capital gains is half of the Canadian corporate income tax rate.

Distech 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 2011 and 2012.

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.

(iii) Technovator Beijing is recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% until 2013.

(iv) The Group is not subject to Hong Kong corporate income tax during the years ended 31 December 2011 and 2012.

8 Directors' remuneration

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

	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	–	–	–	–	–	–
Chan Hock Eng (note (iii))	–	–	–	–	–	–
Liu Tianmin (note (iv))	–	–	–	–	–	–
David Chow Dah-Jen (note (v))	–	–	–	–	–	–
Independent non-executive directors						
Fan Ren Da Anthony (note (vi))	–	–	–	–	–	–
Chia Yew Boon (note (vi))	–	–	–	–	–	–
Chen Hua (note (vi))	–	–	–	–	–	–
	–	317	–	9	168	494

8 Directors' remuneration *(Continued)*

	Year ended 31 December 2012					
	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	200	–	24	339
Seah Han Leong	–	144	200	9	24	377
Non-executive directors						
Lu Zhicheng	36	–	–	–	24	60
Li Jisheng	26	–	–	–	–	26
Ng Koon Siong	30	–	–	–	–	30
Shi Shanshan (note (vii))	17	–	–	–	–	17
Liu Tianmin	26	–	–	–	–	26
David Chow Dah-Jen (note (v))	9	–	–	–	–	9
Independent non-executive directors						
Fan Ren Da Anthony	40	–	–	–	–	40
Chia Yew Boon	40	–	–	–	–	40
Chen Hua	32	–	–	–	–	32
	256	259	400	9	72	996

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 resigned on 15 June 2011.

(ii) The non-executive director was appointed on 1 January 2011.

(iii) The non-executive director resigned on 1 January 2011.

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

(v) The non-executive director was appointed as alternate director of Shi Shanshan on 13 December 2011. After Shi Shanshan resigned on 28 August 2012, he was re-appointed as non-executive director on 28 August 2012 and resigned on 31 December 2012.

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

(vii) The non-executive director resigned on 28 August 2012.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two are directors for the years ended 31 December 2011 and 2012, whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three individuals for the years ended 31 December 2011 and 2012 are as follows:

	2012 US$'000	2011 US$'000
Salaries and other benefits	695	826
Discretionary bonuses	497	76
Share-based payments	33	27
	1,225	929

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

	2012 Number of individuals	2011 Number of Individuals
HKD 1,500,001 – HKD 2,000,000	–	1
HKD 2,000,001 – HKD 2,500,000	–	1
HKD 2,500,001 – HKD 3,000,000	2	–
HKD 3,000,001 – HKD 3,500,000	–	1
HKD 3,500,001 – HKD 4,500,000	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$2,919,000 (2011: US$1,914,000), which has been dealt with in the financial statements of the Company.

(Expressed in United States dollars unless otherwise indicated)

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$13,392,000 (2011: US$10,445,000) and the weighted average number of ordinary shares of 501,519,123 (2011: 384,926,027) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2012 Number of shares	2011 Number of shares
Issued ordinary shares at 1 January	**485,200,000**	9,080,000
Effect of subdivision of shares (note 25(c)(i))	**–**	354,120,000
Effect of issuance of shares (note 25(c)(ii))	**–**	21,726,027
Effect of exercise of Pre-IPO Share Option Scheme	**16,319,123**	–
Weighted average number of ordinary shares at 31 December	**501,519,123**	384,926,027

(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$13,392,000 (2011: US$10,445,000) and the weighted average number of ordinary shares of 501,519,123 (2011: 398,256,592) in issue during the year, calculated as follows:

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

	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares at 31 December	**501,519,123**	384,926,027
Effect of deemed issue of ordinary shares under the Company's option scheme for nil consideration (note 23(c))	**–**	13,330,565
Weighted average number of ordinary shares (diluted) at 31 December	**501,519,123**	398,256,592

The share options of the Company did not have dilutive effect as at 31 December 2012.

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$'000	Land held for own use US$'000	Construction in progress US$'000	Total US$'000
Cost:								
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	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
At 1 January 2012	1,082	542	1,963	1,055	391	–	–	5,033
Additions	127	70	367	193	193	1,142	2,487	4,579
Disposals	–	–	(26)	–	–	–	–	(26)
Exchange adjustments	18	11	40	22	1	5	12	109
At 31 December 2012	1,227	623	2,344	1,270	585	1,147	2,499	9,695
Accumulated depreciation:								
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
At 1 January 2012	315	168	793	281	45	–	–	1,602
Charge for the year	244	67	375	159	68	–	–	913
Written back on disposal	–	–	(17)	–	–	–	–	(17)
Exchange adjustments	8	4	15	8	1	–	–	36
At 31 December 2012	567	239	1,166	448	114	–	–	2,534
Net book value:								
At 31 December 2011	767	374	1,170	774	346	–	–	3,431
At 31 December 2012	660	384	1,178	822	471	1,147	2,499	7,161

As at 31 December 2012, the net book value of computers and machinery held under finance leases of the Group was US$36,981 (2011: US$59,722).

As at 31 December 2012, certain items of property, plant and equipment with net book value of US$4,519,272 (2011: US$1,036,000) have been pledged as securities for the loans and borrowings (note 22(c)).

As at 31 December 2012, the land held for own use of the Group with net book value of US$1,147,000 (2011: nil) was a freehold land outside Hong Kong.

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 2011	3,028	11,968	1,867	427	17,290
Additions through internal development	–	3,766	–	–	3,766
Additions through business combination	–	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
At 1 January 2012	2,671	15,615	2,029	414	20,729
Additions through internal development	–	5,847	–	–	5,847
Disposals	–	(5,206)	–	–	(5,206)
Exchange adjustments	66	266	34	8	374
At 31 December 2012	2,737	16,522	2,063	422	21,744
Accumulated amortisation:					
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
At 1 January 2012	–	5,712	508	384	6,604
Charge for the year	–	2,765	190	34	2,989
Written back on disposals	–	(5,029)	–	–	(5,029)
Exchange adjustments	–	214	9	4	227
At 31 December 2012	–	3,662	707	422	4,791
Net book value:					
At 31 December 2011	2,671	9,903	1,521	30	14,125
At 31 December 2012	2,737	12,860	1,356	–	16,953

14 Goodwill

	The Group	
	2012	2011
	US$'000	US$'000
Cost and carrying value:		
At 1 January	**15,914**	15,713
Additions through business combination	**–**	546
Exchange adjustments	**343**	(345)
At 31 December	**16,257**	15,914

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	
	2012	2011
	US$'000	US$'000
BAS-Canada	**9,014**	8,806
BAS-France	**7,243**	7,108
	16,257	15,914

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 four-year period are extrapolated using an estimated weighted average growth rate of 3% (2011: 3%). The cash flows are discounted using a discount rate of 19% and 15% (2011: 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 2011 and 2012.

15 Other financial assets

	The Group	
	2012 US$'000	2011 US$'000
Long-term trade receivables	**6,150**	–
Less: current portion of long-term trade receivables	**(802)**	–
	5,348	–

Long-term trade receivables represent trade receivables of certain construction contracts which are repayable by instalments over a 5 to 7 year period.

16 Investments in subsidiaries

	2012 US$'000	2011 US$'000
Unlisted investments, at cost	**20,323**	20,323
Fair value of share options granted to employees of a subsidiary	**477**	359
	20,800	20,682

(Expressed in United States dollars unless otherwise indicated)

16 Investments in subsidiaries *(Continued)*

The following list contains the particulars of the Company's principal subsidiaries as at 31 December 2012.

			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	63.8%	63.8%	–	Design, manufacturing and marketing 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	63.8%	–	100%	Investment holding
Comtec	France 27 July 1994	3,057 shares of EUR40 each	63.8%	–	100%	Design, manufacturing, sales and marketing of building automation solutions
Acelia	France 27 February 1996	13,000 shares of EUR10 each	63.8%	–	100%	Sales and marketing of building automation solutions
Distech France	France 24 February 2010	EUR3,685,261	63.8%	–	100%	Investment holding
e2 Solutions Inc.	Canada 30 October 2011	CAD$1,496,632	31.96%	–	50.1%	Management and monitoring services on energy-savings

17 Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2012 **US$'000**	2011 US$'000
Raw materials	**4,728**	4,468
Work in progress	**399**	551
Finished goods	**7,081**	9,788
	12,208	14,807

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	
	2012 **US$'000**	2011 US$'000
Carrying amount of inventories sold	**79,224**	55,836
Write-down of inventories	**123**	73
Reversal of write-down of inventories	**–**	(235)
	79,347	55,674

As at 31 December 2012, certain inventories with carrying value of US$2,417,000 (2011: US$3,001,000) have been pledged as securities for the loans and borrowings (note 22(c)).

18 Trade and other receivables

	The Group		The Company	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Trade debtors due from related parties (note 28(c))	**5,927**	2,613	**–**	–
Other trade debtors and bills receivable	**40,684**	26,243	**377**	199
Less: Allowance for doubtful debts (note 18(b))	**(1,479)**	(735)	**(2)**	(2)
	45,132	28,121	**375**	197
Other receivables	**847**	437	**77**	19
Loans and receivables	**45,979**	28,558	**452**	216
Deposits and prepayments	**1,909**	2,578	**–**	–
	47,888	31,136	**452**	216

At 31 December 2012, certain trade debtors and bills receivable with carrying value US$7,892,000 (2011: US$5,137,000) 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	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Current	**29,752**	17,838	**166**	89
Less than 1 month past due	**3,923**	4,758	**56**	77
More than 1 month but less than 3 months past due	**1,860**	2,431	**7**	27
More than 3 months but less than 12 months past due	**8,347**	2,114	**146**	4
More than 12 months past due	**1,250**	980	**–**	–
	15,380	10,283	**209**	108
	45,132	28,121	**375**	197

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	
	2012	2011
	US$'000	US$'000
At 1 January	**735**	720
Impairment loss recognised	**763**	226
Reversal of impairment loss	**(27)**	(233)
Uncollectible amounts written off	**–**	(13)
Exchange adjustment	**8**	35
At 31 December	**1,479**	735

At 31 December 2012, 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.

19 Cash and cash equivalents

	The Group		The Company	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Deposit with banks and other financial institutions	**62**	62	**62**	62
Cash at bank and in hand	**40,443**	27,878	**11,677**	10,523
Cash and cash equivalents	**40,505**	27,940	**11,739**	10,585

20 Trade and other payables

	The Group		The Company	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Trade payables due to related parties (note 28(c))	**451**	947	**919**	859
Other trade and bills payable	**32,305**	18,968	**330**	102
	32,756	19,915	**1,249**	961
Other payables and accruals	**10,806**	5,881	**1,272**	491
Financial liabilities measured at amortised cost	**43,562**	25,796	**2,521**	1,452
Receipts in advance	**474**	734	**–**	–
Deferred income	**16**	32	**–**	–
	44,052	26,562	**2,521**	1,452

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	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
By date of invoice:				
Within 3 months	**28,966**	18,038	**143**	126
More than 3 months but within 6 months	**1,849**	228	**14**	88
More than 6 months but within 12 months	**410**	476	**1,092**	747
More than 12 months	**1,531**	1,173	**–**	–
	32,756	19,915	**1,249**	961

21 Gross amounts due from/to customers for contract work

	The Group	
	2012	2011
	US$'000	US$'000
Direct costs incurred to date on contract plus attributable profits less recognised losses	**17,715**	10,977
Less: Progress payments received	**(16,891)**	(10,469)
Gross amounts due from customers for contract work	**824**	508
Direct costs incurred to date on contract plus attributable profits less recognised losses	**7,794**	8,080
Less: Progress payments received	**(7,993)**	(8,437)
Gross amounts due to customers for contract work	**(199)**	(357)

22 Loans and borrowings

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

	The Group	
	2012	2011
	US$'000	US$'000
Secured bank overdrafts	**84**	308
Bank loans		
– Secured	**9,450**	4,328
– Unsecured	**4,954**	1,413
	14,488	6,049
Other borrowings	**496**	924
	14,984	6,973

22 Loans and borrowings *(Continued)*

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

	The Group	
	2012 US$'000	2011 US$'000
Within 1 year or on demand	**7,922**	3,591
After 1 year but within 2 years	**5,010**	1,501
After 2 years but within 5 years	**904**	1,509
After 5 years	**1,148**	372
	7,062	3,382
	14,984	6,973

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

	The Group	
	2012 US$'000	2011 US$'000
Banking facilities		
– Secured	**12,641**	7,938
– Unsecured	**8,532**	16,097
	21,173	24,035

At 31 December 2012, the facilities were utilised to the extent of US$14,563,246 (2011: US$6,181,591).

The secured banking facilities were pledged by the investment in subsidiaries held by Distech Controls and the following assets:

		The Group	
	Note	**2012 US$'000**	2011 US$'000
Property, plant and equipment	12	**4,519**	1,036
Inventories	17(b)	**2,417**	3,001
Trade debtors and bills receivable	18	**7,892**	5,137
		14,828	9,174

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the balance sheet ratios at the subsidiaries level, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(b). As at 31 December 2012 none of the covenants relating to drawn down facilities had been breached (2011:$ nil).

(Expressed in United States dollars unless otherwise indicated)

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. 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 granted was modified to Hong Kong Dollars, translated at the spot exchange rate 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.

(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		

(Expressed in United States dollars unless otherwise indicated)

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

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

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

	2012 Weighted average exercise price	2012 Number of options	2011 Weighted average exercise price	2011 Number of options
Outstanding at the beginning of the year	**HK$0.695**	**36,320,000**	US$3.57	908,000
Subdivision of shares during the year	**–**	**–**	HK$0.695	35,412,000
Exercised during the year	**HK$0.695**	**(36,320,000)**	–	–
Outstanding at the end of the year	**–**	**–**	HK$0.695	36,320,000
Exercisable at the end of the year	**–**	**–**	HK$0.695	36,320,000

The closing share price at the date of exercise for the share option exercised during the year was HK$1.16 (2011: not applicable).

(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	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.

(Expressed in United States dollars unless otherwise indicated)

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

(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.

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

	Number of Options	Vesting conditions	Contractual life of options
Options granted to employees:			
–28 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		

(Expressed in United States dollars unless otherwise indicated)

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

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

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

	2012 Weighted Average exercise price CAD$	2012 Number of options	2011 Weighted average exercise price CAD$	2011 Number of options
Outstanding at the beginning of the year	**0.60**	**1,770,000**	0.60	1,815,000
Forfeited during the year	**0.60**	**(20,000)**	0.60	(280,000)
Granted during the year	**–**	**–**	0.60	235,000
Outstanding at the end of the year	**0.60**	**1,750,000**	0.60	1,770,000
Exercisable at the end of the year	**0.60**	**1,138,333**	0.60	610,667

No options were exercised during the years ended 31 December 2011 and 2012.

The options outstanding at 31 December 2012 had an exercisable price of CAD$0.60 (2011: CAD$0.60) and a weighted average remaining contractual life of 1.07 years (2011: 1.91 years).

(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%

(Expressed in United States dollars unless otherwise indicated)

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

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

(iii) Fair value of share options and assumptions (Continued)

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 was 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.

(c) Share Option Scheme 2012

The Company has a share option scheme ("Share Option Scheme 2012") which was adopted on 23 July 2012("the date of grant") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of the Company, to take up options to subscribe for a total of 48,500,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK$1.15 per Share, which represents (1) the closing price of HK$1.15 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (2) the average closing price of HK$1.15 per share as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant. Under Share Option Scheme 2012, the options granted shall have an exercisable period of 5 years from the date of grant and 50% of the total number of options granted will be vested after the second anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2012 and the remaining 50% will be vested after the third anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2013.

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors and chief executives:			
– on 23 July 2012	8,700,000	2 years service and meeting 2012 profit target	5 years
– on 23 July 2012	8,700,000	2 years service and meeting 2013 profit target	5 years
Options granted to employees:			
– on 23 July 2012	15,550,000	2 years service and meeting 2012 profit target	5 years
– on 23 July 2012	15,550,000	2 years service and meeting 2013 profit target	5 years
Total share options granted	48,500,000		

(Expressed in United States dollars unless otherwise indicated)

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

(c) Share Option Scheme 2012 *(Continued)*

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

	2012 Weighted average exercise price	2012 Number of options	2011 Weighted average exercise price	2011 Number of options
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	HK$1.15	48,500,000	–	–
Outstanding at the end of the year	HK$1.15	48,500,000	–	–
Exercisable at the end of the year	–	–	–	–

The options outstanding at 31 December 2012 had an exercise price of HK$1.15 (2011: not applicable) and weighted average remaining contractual life of 4.56 years (2011: not applicable).

(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 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 model.

Fair value of share options and assumptions

Fair value at measurement date	HK$0.21
Share price	HK$1.15
Exercise price	HK$1.15
Expected volatility	42.54%
Option life	5 years
Expected dividends	0%
Risk-free interest rate	0.53%

The expected volatility is based on the historic volatility of the share prices of the Company. 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 and non-market performance condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

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 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
At 1 January 2012	45	1,419	1,196	(247)	(150)	(195)	(65)	2,003
Charged/(credited) to the consolidated income statement (note 7(a))	12	(182)	(58)	(118)	(12)	71	(49)	(336)
Exchange adjustments	1	3	(53)	75	–	2	4	32
At 31 December 2012	58	1,240	1,085	(290)	(162)	(122)	(110)	1,699

	The Group	
	2012 US$'000	2011 US$'000
Represented by:		
Deferred tax assets	**(401)**	(287)
Deferred tax liabilities	**2,100**	2,290
	1,699	2,003

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

(b) Deferred tax assets not recognised

At 31 December 2012, 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$2,829,000 (2011: US$1,861,000) and the Group did not recognise deferred tax assets in respect of unused tax losses of US$2,842,000 (2011: US$2,275,000), 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$13,000 will not expire until after 2017.

(c) Deferred tax liabilities not recognised

At 31 December 2012, 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$39,894,000 (2011: US$26,031,000), 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.

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	Share-based compensation reserve	Accumulated losses	Total equity
	Note 25(c)	Note25(d)(iii)		
	US$'000	US$'000	US$'000	US$'000
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
At 1 January 2012	33,786	1,080	(4,799)	30,067
Equity settled share-based transactions	4,335	(833)	–	3,502
Loss for the year	–	–	(2,919)	(2,919)
At 31 December 2012	38,121	247	(7,718)	30,650

(b) Dividends

The Company has not distributed any dividends during the years ended 31 December 2011 and 2012.

25 Capital, reserves and dividends *(Continued)*

(c) Share capital

	2012 Number of shares	2012 Amounts US$'000	2011 Number of shares	2011 Amounts US$'000
Ordinary shares, issued and fully paid:				
At 1 January	485,200,000	33,786	9,080,000	24,228
Subdivision of shares	–	–	354,120,000	–
Issuance of shares	–	–	122,000,000	15,693
Share issuance costs	–	–	–	(6,135)
Shares issued under Pre-IPO Share Option Scheme	36,320,000	4,335	–	–
At 31 December	521,520,000	38,121	485,200,000	33,786

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) On 20 July 2012, a total of 36,320,000 Shares were issued by the Company upon the exercise of shares options by all the grantees pursuant to the Pre-IPO Share Option Scheme at a consideration of US$3,255,000 which was credited to share capital, US$1,080,000 has been transferred from the share based compensation reserve to the share capital in accordance with policy set out in note 2(r)(ii).

(Expressed in United States dollars unless otherwise indicated)

25 Capital, reserves and dividends *(Continued)*

(c) Share capital *(Continued)*

(iv) Terms of unexpired and unexercised share options under the Pre-IPO Share Option Scheme and Share Option Scheme 2012 at the balance sheet dates are as follows:

	2012		2011	
Exercise period	**Exercise price**	**Number of options**	Exercise price	Number of options
12 February 2011 to 11 August 2012	**NIL**	**–**	HK$0.695	12,106,680
12 August 2011 to 11 August 2012	**NIL**	**–**	HK$0.695	24,213,320
23 July 2014 to 23 July 2017	**HK$1.15**	**24,250,000**	–	–
23 July 2015 to 23 July 2017	**HK$1.15**	**24,250,000**	–	–
		48,500,000		36,320,000

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.

(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).

25 Capital, reserves and dividends *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(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 2012, Distech Controls repurchased shares from a non-controlling shareholder for a total consideration of US$5,774,606. 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 2011 and 2012.

(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 2012, the amount of capital employed was US$99,488,000 (2011: US$77,701,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders 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 2012, the Group has certain concentration credit risk that 17.7% (2011: 14.8%) 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 2011 and 2012.

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.

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

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants 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:

	2012 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 and other payables measured at amortised costs	43,562	–	–	–	43,562	43,562
Loans and borrowings	8,316	5,176	906	1,148	15,546	14,984
Obligations under finance leases	39	31	94	26	190	183
	51,917	5,207	1,000	1,174	59,298	58,729

	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 and other payables measured at amortised costs	25,796	–	–	–	25,796	25,796
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

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:

	2012 Effective interest rate %	2012 Amounts US$'000	2011 Effective interest rate %	2011 Amounts US$'000
Fixed rate instruments:				
Loans and borrowings	4.01	587	4.65	1,322
Obligations under finance leases	4.02	183	6.53	87
		770		1,409
Variable rate instruments:				
Loans and borrowings	4.86	14,397	5.91	5,651
		14,397		5,651
Total borrowings		15,167		7,060
Fixed rate borrowings as a percentage of total borrowings		5.1%		20.0%

(ii) Sensitivity analysis

At 31 December 2012, 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$111,000 (2011: US$40,000).

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 2011.

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, Hong Kong Dollars and United States 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.

	2012 Exposure to foreign currencies (expressed in US$)		
	Euros US$'000	**United States Dollars US$'000**	**Hong Kong Dollars US$'000**
Trade and other receivables	**4,110**	**4,881**	**1**
Cash and cash equivalents	**1,080**	**1,970**	**6,724**
Trade and other payables	**(4,863)**	**(2,217)**	**(159)**
Net exposure arising from recognised assets and liabilities	**327**	**4,634**	**6,566**

	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

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.

	2012		2011	
	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%	3	5%	43
	(5)%	(3)	(5)%	(43)
United States Dollars	5%	59	5%	98
	(5)%	(59)	(5)%	(98)
Hong Kong Dollars	5%	272	5%	146
	(5)%	(272)	(5)%	(146)

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 2011.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012.

27 Commitments

(a) Capital commitments

The Group has no material capital commitments except for the construction of the new building which was authorised and contracted for US$4,300,000 at 31 December 2012 (2011: Nil).

(b) Operating lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2012 US$'000	2011 US$'000
Within 1 year	1,021	965
After 1 year but within 5 years	1,458	1,714
	2,479	2,679

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 2011 and 2012.

28 Material related party transactions

(a) Name and relationship with related parties

During the years ended 31 December 2011 and 2012, transactions with the following parties are considered as related party transactions:

Name of party
Tongfang Co., Ltd. ("Tongfang")* (同方股份有限公司)
Tsinghua Tongfang Artificial Environment Co., Ltd* (同方人工環境有限公司)
Liaoning Tongfang Security Technology Co., Ltd.* (遼寧同方安全技術有限公司)
Beijing Tongfang Property Management* (北京同方物業管理有限公司)

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

Tongfang is the single largest shareholder holding 32.98% of the issued capital of the Company as at 31 December 2012 and is a controlling shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Other related parties listed above are subsidiaries of Tongfang.

28 Material related party transactions *(Continued)*

(b) Significant related party transactions

Particulars of significant related party transactions during the years ended 31 December 2011 and 2012 are as follows:

	2012 US$'000	2011 US$'000
Sales to Tongfang and its subsidiaries	13,801	10,891
Purchases from Tongfang and its subsidiaries	1,414	1,999
Office rental expenses paid to Tongfang Co., Ltd.	207	201
Warehouse rental expenses paid to Tongfang Co., Ltd.	62	60
Machineries rental expenses paid to Tongfang Co., Ltd.	52	50

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 2011 and 2012 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

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

At 31 December 2011 and 2012, the Group had the following balances with Tongfang and its subsidiaries:

	2012 US$'000	2011 US$'000
Trade and other receivables	5,927	2,613
Trade and other payables	(451)	(947)

Balances with related parties are unsecured and interest free.

(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:

	2012 US$'000	2011 US$'000
Short term employee benefits	1,500	799
Post-employment benefits	9	9
Share-based payments	73	168
	1,582	976

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

28 Material related party transactions *(Continued)*

(e) The related party transactions in respect of sales, purchases and office rental expenses above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors. The related party transaction in respect of machineries rental expenses above constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

29 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.

(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 is continuously monitored by the Group management.

(Expressed in United States dollars unless otherwise indicated)

29 Accounting estimates and judgements *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(vi) 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.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective during the year ended 31 December 2012

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 2012 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 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
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures (2011)*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Annual Improvements to HKFRSs 2009–2011 Cycle	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
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.