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## **TECHNOVATOR INTERNATIONAL LIMITED**

**同方泰德國際科技有限公司\***

*(incorporated in Singapore with limited liability)*

**(Stock Code: 1206)**

### **2014 INTERIM RESULTS ANNOUNCEMENT**

#### **INTERIM RESULTS**

The board of directors (the “**Board**”) of Technovator International Limited (the “**Company**”) is pleased to announce the interim results and the unaudited consolidated interim financial statements of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013. These results have been reviewed by the Company’s audit committee, comprising solely the independent non-executive directors of the Company. The unaudited interim financial statements for the six months ended 30 June 2014 have been reviewed by the Company’s external auditor.

\* *for identification purposes only*

**CONSOLIDATED INCOME STATEMENT**  
*For the six months ended 30 June 2014 – unaudited*  
*(Expressed in United States dollars)*

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Revenue</b>	3,4	<b>74,349</b>	59,776
Cost of sales		<u>(43,771)</u>	<u>(35,555)</u>
<b>Gross profit</b>		<b>30,578</b>	24,221
Other revenue		<b>909</b>	400
Other net loss		<b>(254)</b>	(119)
Selling and distribution costs		<b>(6,569)</b>	(5,371)
Administrative and other operating expenses		<b>(8,975)</b>	(6,892)
Research and development expenses		<u>(2,279)</u>	<u>(2,401)</u>
<b>Profit from operations</b>		<b>13,410</b>	9,838
Finance costs	5(a)	<u>(1,058)</u>	<u>(348)</u>
<b>Profit before taxation</b>		<b>12,352</b>	9,490
Income tax	6	<u>(3,330)</u>	<u>(2,232)</u>
<b>Profit for the period</b>		<u><b>9,022</b></u>	<u>7,258</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>7,662</b>	6,228
Non-controlling interests		<u><b>1,360</b></u>	<u>1,030</u>
<b>Profit for the period</b>		<u><b>9,022</b></u>	<u>7,258</u>
<b>Earnings per share</b>	7		
Basic (US\$)		<b>0.0147</b>	0.0119
Diluted (US\$)		<u><b>0.0125</b></u>	<u>0.0115</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – unaudited

(Expressed in United States dollars)

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
<b>Profit for the period</b>	<b>9,022</b>	7,258
<b>Other comprehensive income for the period</b>		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	<u>(777)</u>	<u>372</u>
<b>Total comprehensive income for the period</b>	<b><u>8,245</u></b>	<b><u>7,630</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>6,955</b>	6,628
Non-controlling interests	<b><u>1,290</u></b>	<u>1,002</u>
<b>Total comprehensive income for the period</b>	<b><u>8,245</u></b>	<b><u>7,630</u></b>

## CONSOLIDATED BALANCE SHEET

As at 30 June 2014 – unaudited

(Expressed in United States dollars)

		At 30 June 2014 US\$'000	At 31 December 2013 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	9,581	9,776
Intangible assets		23,689	21,553
Goodwill		15,480	15,554
Other financial assets	9	33,245	26,471
Deferred tax assets		457	474
		<u>82,452</u>	<u>73,828</u>
<b>Current assets</b>			
Trading securities		1,703	1,823
Inventories		19,262	16,216
Trade and other receivables	10	80,124	65,665
Gross amounts due from customers for contract work		1,193	451
Cash and cash equivalents	11	42,799	53,553
		<u>145,081</u>	<u>137,708</u>
<b>Current liabilities</b>			
Trade and other payables	12	51,051	55,090
Gross amounts due to customers for contract work		1,167	51
Loans and borrowings		25,378	14,402
Obligations under finance leases		30	30
Income tax payable		1,436	1,625
		<u>79,062</u>	<u>71,198</u>
<b>Net current assets</b>		<u>66,019</u>	<u>66,510</u>
<b>Total assets less current liabilities</b>		<u>148,471</u>	<u>140,338</u>

**CONSOLIDATED BALANCE SHEET (CONTINUED)***As at 30 June 2014 – unaudited**(Expressed in United States dollars)*

		At 30 June 2014 US\$'000	At 31 December 2013 US\$'000
<b>Non-current liabilities</b>			
Loans and borrowings		4,774	6,512
Obligations under finance leases		99	114
Deferred tax liabilities		2,386	1,965
Other non-current liabilities	13	<u>36,041</u>	<u>35,571</u>
		<u>43,300</u>	<u>44,162</u>
<b>NET ASSETS</b>		<u>105,171</u>	<u>96,176</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	38,121	38,121
Reserves		<u>64,141</u>	<u>56,498</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>102,262</b>	94,619
<b>Non-controlling interests</b>		<u>2,909</u>	<u>1,557</u>
<b>TOTAL EQUITY</b>		<u>105,171</u>	<u>96,176</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in United States dollars unless otherwise indicated)*

### 1 BASIS OF PREPARATION

This interim financial report of Technovator International Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 14 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2014.

### 2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK (IFRIC) 21, *Levies*

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

### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

### **Amendments to HKAS 32, Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

### **Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. These amendments do not have an impact on the Group's interim financial report.

### **HK (IFRIC) 21, Levies**

The interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

## **3 REVENUE**

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

Revenue represents the sales value of goods sold to customers, income from provision of services and revenue from construction contracts. The amounts of each significant category of revenue recognised during for the six months ended 30 June 2013 and 2014 are as follows:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<i>US\$'000</i>	<i>US\$'000</i>
Sales of goods	<b>63,002</b>	46,702
Provision of services	<b>6,857</b>	6,891
Contract revenue	<b>4,490</b>	6,183
	<hr/>	<hr/>
	<b>74,349</b>	59,776
	<hr/>	<hr/>

## 4 SEGMENT REPORTING

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

Building Automation Systems ("BAS") (PRC/North America/Europe/Other countries): This is a control and management system that provides intelligent control over various electrical systems in buildings, including air-conditioning, lighting, elevators, ventilation systems, water supply and discharge systems and power supply systems.

The Group's BAS business is segregated further into four operating segments on a geographical basis. All four operating segments primarily derive their revenue from the sales of BAS products. The products are generally a combination of items sourced externally and manufactured in the Group's manufacturing facilities.

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

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

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

### (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 six months ended 30 June 2014 and 2013 is set out below:

	BAS - North				BAS - Other				CSS - PRC		FAS - PRC		EMS - PRC		Total	
	BAS - PRC		America		BAS - Europe		countries		2014	2013	2014	2013	2014	2013	2014	2013
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers	20,683	16,705	17,326	14,612	11,121	8,096	4,969	4,262	5,775	4,392	205	183	14,270	11,526	74,349	59,776
Inter-segment revenue	2,539	3,472	394	277	-	-	1	1	-	-	-	-	-	-	2,934	3,750
Reportable segment revenue	23,222	20,177	17,720	14,889	11,121	8,096	4,970	4,263	5,775	4,392	205	183	14,270	11,526	77,283	63,526
Reportable segment profit	3,756	2,266	3,115	2,839	1,955	1,544	874	813	367	170	24	22	6,155	4,936	16,246	12,590

**(b) Reconciliations of reportable segment profit or loss**

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
<b>Reportable Segment Profit</b>		
Reportable segment profit	16,246	12,590
Elimination of inter-segment profits	(71)	74
Reportable segment profit derived from the Group's external customers	16,175	12,664
Depreciation and amortisation	(2,478)	(2,256)
Finance costs	(1,058)	(348)
Unallocated head office and corporate expenses	(287)	(570)
Consolidated profit before taxation	12,352	9,490

**(c) Geographic information**

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

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
<b>Revenue derived from:</b>		
PRC	40,933	32,806
United States	15,513	12,325
France	7,485	5,605
Canada	1,813	2,287
Switzerland	870	1,007
The Netherlands	333	232
Other countries	7,402	5,514
	74,349	59,776

## 5 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
Interest on loans and borrowings	645	347
Net change in fair value of redeemable preference shares	413	–
Other financial costs	–	1
	<u>1,058</u>	<u>348</u>

### (b) Other items

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
Amortisation	1,875	1,741
Depreciation	603	515
Interest income	(249)	(106)
	<u>(249)</u>	<u>(106)</u>

## 6 INCOME TAX

Income tax in the consolidated income statements represents:

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
Current tax	2,887	2,562
Deferred tax	443	(330)
	<u>3,330</u>	<u>2,232</u>

Notes:

- (i) The Company is subject to Singapore corporate income tax at 17% for the six months ended 30 June 2013 and 2014. No provision for Singapore income tax was made because the Company sustained tax losses for the period.
- (ii) Tongfang Technovator Int (Beijing) Co., Ltd. (同方泰德國際科技(北京)有限公司) (“Technovator Beijing”) and Tongfang Technovator Intelligence Technology (Shanghai) Co., Ltd. (同方泰德智能科技(上海)有限公司) (“Technovator Shanghai”) are subject to PRC corporate income tax. The PRC’s statutory income tax rate is 25%.

Distech Controls Inc. (“Distech Controls”) and Distech Controls Facility Solutions Inc. (“e2 Solutions Inc.”) are subject to Canadian corporate income tax at 27% for the six months ended 30 June 2013 and 2014. Corporate income tax comprises of federal and provincial taxes which also apply to investment income earned by general corporations other than capital gains and dividends received from Canadian corporations. The rate that applies to capital gains is half of the Canadian corporate income tax rate.

Distech Controls LLC (“Distech U.S.”) is a single member limited liability company and was structured as a disregarded entity for United States Federal, state and local income tax purpose. Accordingly, no provision for United States corporate income tax was made for the six months ended 30 June 2013 and 2014.

- (iii) Distech Controls S.A.S. (formerly known as Société Comtec Technologies S.A.S.) (“Comtec”), Acelia S.A.S. (“Acelia”) and Distech France Holding S.A.S. (“Distech France”) are subject to French corporate income tax at rate of 33.33% for the six months ended 30 June 2013 and 2014. 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.
- (iv) Technovator Beijing is recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% during the six months ended 30 June 2013 and 2014. The certificate of high and new technology enterprise will expire in September 2014.
- (v) The Group is not subject to Hong Kong corporate income tax during the six months ended 30 June 2013 and 2014.

## **7 EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US\$7,662,000 and the weighted average number of ordinary shares of 521,520,000 in issue during the interim period.

### **(b) Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US\$6,774,000 and the weighted average number of ordinary shares of 541,910,606.

## **8 PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2014, the Group acquired certain items of property, plant and equipment with costs of US\$451,000 (six months ended 30 June 2013: US\$3,734,000).

## **9 OTHER FINANCIAL ASSETS**

As at 30 June 2014, other financial assets included long-term receivables of Karamay construction contract of US\$22,750,000 (31 December 2013: US\$18,040,000).

The remaining balance of other financial assets represents long-term trade receivables of certain construction contracts which are repayable by instalments over a 3 to 7 year period.

## 10 TRADE AND OTHER RECEIVABLES

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

	At <b>30 June</b> <b>2014</b> <i>US\$'000</i>	At 31 December 2013 <i>US\$'000</i>
Current	<b>29,964</b>	39,073
Less than 1 month past due	<b>8,541</b>	4,690
More than 1 month but less than 3 months past due	<b>3,683</b>	3,449
More than 3 month but less than 12 months past due	<b>23,032</b>	8,498
More than 12 months past due	<b>5,380</b>	3,157
	<hr/>	<hr/>
Trade debtors, net of allowance for doubtful debts	<b>70,600</b>	58,867
	<hr/>	<hr/>
Other receivables	<b>1,487</b>	1,243
	<hr/>	<hr/>
Loans and receivables	<b>72,087</b>	60,110
	<hr/>	<hr/>
Deposits and prepayments	<b>8,037</b>	5,555
	<hr/>	<hr/>
	<b>80,124</b>	65,665
	<hr/>	<hr/>

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

## 11 CASH AND CASH EQUIVALENTS

	At <b>30 June</b> <b>2014</b> <i>US\$'000</i>	At 31 December 2013 <i>US\$'000</i>
Deposits with banks and other financial institutions	<b>62</b>	62
Cash at bank and in hand	<b>42,737</b>	53,491
	<hr/>	<hr/>
Cash and cash equivalents	<b>42,799</b>	53,553
	<hr/>	<hr/>

## 12 TRADE AND OTHER PAYABLES

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

	At <b>30 June</b> <b>2014</b> <i>US\$'000</i>	At 31 December 2013 <i>US\$'000</i>
<b>By date of invoice:</b>		
Within 3 months	<b>32,696</b>	35,509
More than 3 months but within 6 months	<b>1,413</b>	1,980
More than 6 months but within 12 months	<b>1,500</b>	2,592
More than 12 months	<b>2,637</b>	1,488
	<hr/>	<hr/>
Trade creditors and bills payable	<b>38,246</b>	41,569
Other payables and accruals	<b>8,265</b>	11,121
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	<b>46,511</b>	52,690
Receipts in advance	<b>4,540</b>	2,370
Deferred income	–	30
	<hr/>	<hr/>
	<b>51,051</b>	55,090
	<hr/>	<hr/>

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

## 13 OTHER NON-CURRENT LIABILITIES

At 30 June 2014 and 31 December 2013, the balance mainly represents the liability component of the redeemable preference shares issued by Distech Controls, designated at fair value through profit or loss, of US\$35,898,000 and US\$35,571,000 respectively.

## 14 CAPITAL, RESERVES AND DIVIDENDS

### (a) Share capital

There has been no exercise of stock option which impact share capital for the six months ended 30 June 2013 and 2014.

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

Capital reserve arising from changes in ownership interests in subsidiaries is resulted from transactions with equity holders in their capacity as equity holders. The balance comprises capital reserve movements arising from difference between fair value of consideration paid or received and the amount by which the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiary.

### (c) Dividends

The Company has not distributed any dividends for the six months period ended 30 June 2014 and 2013.

## 15 MATERIAL RELATED PARTY TRANSACTIONS

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

### (a) Name and relationship with related parties

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

#### *Name of parties*

Tsinghua Tongfang Co., Ltd (“Tongfang”)\* (同方股份有限公司)

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

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

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

\* *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 30 June 2014 and is a controlling shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Other related parties listed above are subsidiaries of Tongfang.

### (b) Significant related party transactions

Particulars of significant related party transactions during the six months ended 30 June 2013 and 2014 are as follows:

	Six months ended 30 June	
	2014	2013
	US\$'000	US\$'000
Sales to Tongfang Co., Ltd. and its subsidiaries	7,889	8,808
Purchases from Tongfang and its subsidiaries	244	1,388
Office rental expenses paid to Tongfang Co., Ltd.	204	105
Machineries rental expenses paid to Tongfang Co., Ltd.	26	26
Warehouse rental expenses paid to Tongfang Co., Ltd.	31	–

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.

## **BUSINESS REVIEW**

With the recent fast economic growth in China, energy consumption value kept increasing. On the other hand, rapid urbanization and industrialization drove strong demand for energy saving and emission reduction. Increasingly tense global energy supply and expanding building energy saving demand provided the energy-saving environmental protection market with great market opportunity. Leveraging on the favourable macro-economic conditions, the Group made unremitting efforts to achieve satisfactory performance in the period through strengthening and developing marketing network, striving for strategic acquisition and building partnerships, continuously investing in research and development and promoting brand awareness.

### **Enhancing energy saving business layouts**

As the only overseas energy saving platform under Tongfang Group, Technovator has been committed to expanding and developing its energy saving and environmental protection business.

During the period, the Group entered into an indirect acquisition of Tongfang Energy Saving Engineering Technology Co., Ltd.\* (同方節能工程技術有限公司) (“Tongfang Energy Saving”). The acquisition was approved at the extraordinary general meeting in July. The completion of such acquisition would facilitate the Group’s expansion into building energy efficiency, utilization of waste heat and industrial energy saving sectors in the field of urban energy saving, by which the Group would be well-positioned to provide comprehensive energy management services based on the consolidation of “energy sources, transmission network and end users”. Leveraging on its heat pump technology and experiences and expertise in industrial waste heat recovery, Tongfang Energy Saving has its energy saving business development in full swing and seeks to create a new driver of profit growth for the Group. In addition, it strives to enhance the expansion of the industrial chain, project design and the overall servicing capability in operation, increasing the influence of the Group in the PRC’s energy saving industry.

In pursuit of diversification, we will be devoted to expanding building energy saving and regional power station business with the core objective of providing comprehensive energy management solutions and services for the planning, utilization, regulation and control of various kinds of energies.

### **Progressive achievement in energy saving business**

Thanks to the goodwill in the industry and technology and products experiences in the building energy saving field of Technovator, energy saving projects had been widely and deeply developing and the business achieved progressive development. At present, the Group had provided city level building energy saving services for many regions, such as Chongqing, Wuhan, Hunan, Karamay and Chifeng. It also provided building energy saving technological services and solutions for city complex, government offices, financial, aviation, chain organizations, industrial parks, cultural centres and many industries, such as education and transportation. The successful application of proprietary products on various fields by the Group proved its technological capability and comprehensive servicing capability in the building energy saving industry. During the period, Technovator undertook a handful of

energy efficiency projects, such as the Beijing No.8 Forest Park South Station (北京8號線森林公園南站), Beijing Workers' Sports Complex (北京工人體育場), administration centre of Wanzhou District in Chongqing (重慶萬州區行政中心), Chongqing Technology and Business University (重慶工商大學), Joyhome Mall in Chongqing (重慶聚信美家居世紀城), Changchun Guosheng Hotel (長春國盛大酒店), Guangzhou World Trade Clothing Centre (廣州世貿服裝城), Shenyang Art Building (瀋陽藝術大廈), Shaoxing City Shangyu Tin Yuet Kai Yuan Grand Hotel (紹興市上虞天悅開元名都大酒店). While the market shares have been increasing, the regional distribution of the Group's business becomes wider, project types richer and project scales larger.

Facilitating the progress of urban energy saving retrofit, focusing on large-scale landmark projects, implementing key projects to gain more market shares have been the main focus of strategic planning of the Group. After the smooth progress of the building energy saving retrofit in Chongqing, the Group achieved favourable performance in one of the most advanced cities, Shanghai. During the period, Technovator strived to become the core unit of building energy saving projects in Shanghai, successfully realizing the energy saving retrofit for landmark projects, such as Shanghai Grand Stage (上海大舞臺) (originally known as Shanghai Gymnasium (上海萬人體育館), Shanghai Swimming Stadium (上海游泳館) and Shanghai East Asia Exhibition Hall (東亞展覽館) and laying strong fundamental for the urban energy saving retrofit. These pilot projects not only can increase the popularity and influence of the Group in the industry, but also can enhance the leading position of the Group in the business development of the China's market.

### **Overseas business development getting on track**

Distech Controls, a subsidiary of the Group acquired in 2008, has become a global leading innovative green building solution provider after years of steady expansion, providing customers with exclusive building energy saving technologies and services, which are crucial in improving the energy consumption and quality of buildings with reduced operating costs. The top-notch products and services have earned Distech Controls a network of strategic investment alliances along with various honourable awards. Securing a position on the list of the most fast-growing enterprises in Canada, the Group was granted the PROFIT 500 award during the period, which symbolizes the recognition for the strategic acquisitions, major investments and global development plan made by the Group and Distech Controls, as well as the business development of the Group in overseas markets.

### **Enhanced research and development capability**

With respect to products and provision of technologies, prior to the commencement of application trial, the Company has further improved the Energy-saving Expert Control System (EEC) the upgrade on which was underscored with the algorithm for the energy saving efficiency of the whole set of air-conditioning systems and the development of relevant software packages. As a result, the need for adjustment was reduced while the operation of the network was consolidated and optimized. Furthermore, with the addition of modular components such as electric meter units, the consolidation of 4 electric control boxes into 1 single module were completed, making the system more readily used with an user-friendly interface. Regarding the branding effort and disposition of sales channels, through the integration of overseas and local markets, the Group aims at providing customers with more building energy saving technologies and services, as well as a new package of solutions.



With strong research and development capability seen as Technovator's core competitive advantage, the Group will continue to heighten effort in research and development. During the period under review, 8 new software copyrights were obtained and research and development expenses accounted for approximately 8.6% of the total revenue of the Group.

### **Prospects**

The objective of Technovator is to provide comprehensive energy management services in the long run. Leveraging on our own experience and expertise, we will continue to implement strategic development plans and accelerate the development of building energy saving business, energy management business and regional power station business by consolidating and improving all kinds of resources. We will focus on developing integrated cold and heat supply solutions and cold and heat power station control systems, which will be the drivers of business growth in the future. Meanwhile, following the development direction of the country and industry, on top of expanding its scope of business and widening its customer base, the Group seeks to create and build up the standard for the quality and scale of landmark projects. While actively exploring opportunities for sustainable growth, the Group strives to enhance the overall returns for itself and shareholders.

## **FINANCIAL REVIEW – CONTINUING OPERATIONS**

### **Revenue**

Our total revenue increased by approximately US\$14.5 million from approximately US\$59.8 million for the six months ended 30 June 2013 to approximately US\$74.3 million for the six months ended 30 June 2014. The increase was mainly due to satisfactory achievement in building energy saving business, progressive implementation of the EMC projects and competitive energy efficiency solutions and services.

## Revenue by business segments

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

	For the six months ended 30 June				Growth analysis 2014 vs. 2013
	2013		2014		
	Revenue (US\$'000)	% of revenue	Revenue (US\$'000)	% of revenue	
<b>Building energy saving solutions:</b>					
Integrated building automation systems	43,675	73.1%	<b>54,099</b>	<b>72.7%</b>	23.9%
Energy management systems	11,526	19.3%	<b>14,270</b>	<b>19.2%</b>	23.8%
<b>Others:</b>					
Control security systems	4,392	7.3%	<b>5,775</b>	<b>7.8%</b>	31.5%
Fire alarm systems	183	0.3%	<b>205</b>	<b>0.3%</b>	12.0%
Total	<u>59,776</u>	<u>100.0%</u>	<u><b>74,349</b></u>	<u><b>100.0%</b></u>	<u>24.4%</u>

### *Integrated building automation systems*

Revenue from integrated building automation systems increased by approximately US\$10.4 million from approximately US\$43.7 million for the six months ended 30 June 2013 to US\$54.1 million for the six months ended 30 June 2014 which was contributed by increase in sales to both our PRC and overseas markets. For the PRC market, we recorded revenue from integrated building automation systems of approximately US\$20.7 million for the six months ended 30 June 2014, representing an increase of 23.8% over the same period in 2013. For the overseas markets, we recorded revenue from integrated building automation systems of approximately US\$33.4 million for the six months ended 30 June 2014, representing an increase of 23.9% over the same period in 2013. The increase in sales was primarily due to (i) the strengthening our sales and marketing strategies to focus more on larger-sized contracts, (ii) bespoke energy-saving solutions and products for different customers and markets, and (iii) the continuing efforts in implementing marketing and business development strategies in China and overseas.

### *Energy management systems*

Revenue from energy management systems increased by approximately US\$2.8 million from approximately US\$11.5 million for the six months ended 30 June 2013 to approximately US\$14.3 million for the six months ended 30 June 2014. The increase in sales was primarily due to (i) competitive solutions in terms of energy saving effectiveness, and (ii) progressive implementation of the EMC projects with sound progress of urban energy saving retrofit.

### *Control security systems and fire alarm systems*

Control security systems and fire alarm systems are two non-core old business segments which revenue in aggregate represented 8.1% of the Company's revenue and increased by approximately US\$1.4 million as compared to that of the six months ended 30 June 2013.

### **Revenue by Geographical Region**

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

	For the six months ended 30 June		2014 vs.		
	2013		2014	2013	
	Revenue	% of	Revenue	% of	
	(US\$'000)	revenue	(US\$'000)	revenue	
The PRC	32,806	54.9%	<b>40,933</b>	<b>55.1%</b>	24.8%
North America	14,612	24.4%	<b>17,326</b>	<b>23.3%</b>	18.6%
The rest of the world	12,358	20.7%	<b>16,090</b>	<b>21.6%</b>	30.2%
Total	<u>59,776</u>	<u>100.0%</u>	<u><b>74,349</b></u>	<u><b>100.0%</b></u>	<u>24.4%</u>

Revenue from the PRC market increased by approximately US\$8.1 million to approximately US\$40.9 million for the six months ended 30 June 2014 from approximately US\$32.8 million for the six months ended 30 June 2013. This increase in sales was mainly attributable to the increasing awareness of building energy efficiency and the respective market in the PRC is rapidly growing as a result of numerous governments' policies with our strong and in-depth sales and distribution networks, intensive marketing and business development strategies and fine quality products and good service among our peers.

Revenue from North American market (including Canada and United States) increased by approximately US\$2.7 million to approximately US\$17.3 million for the six months ended 30 June 2014 from approximately US\$14.6 million for the six months ended 30 June 2013. The increases was attributable to (i) expanded presence and distribution channels; (ii) broaden customer base with focus on major and national accounts; and (iii) gained market share owing to all-round product mix and better services.

Apart from the abovementioned major region, as a result of our continuous efforts in expanding the building energy saving business, revenue generated from the rest of the world had also increased by approximately US\$3.7 million to approximately US\$16.1 million for the six months ended 30 June 2014 as compared with the same period in 2013. The increase was mainly attributable to increasing market share in Europe market, in particular, France and Australia.

#### *Cost of sales*

Cost of sales increased by approximately 23.1%, or approximately US\$8.2 million, from approximately US\$35.6 million for the six months ended 30 June 2013 to approximately US\$43.8 million for the six months ended 30 June 2014. The increase was primarily due to the increase in cost of raw materials from approximately US\$33.5 million for the six months ended 30 June 2013 to approximately US\$41.2 million for the six months ended 30 June 2014, mainly as a result of an overall increase in sales for the period.

#### **Gross profit**

As a result of the foregoing factors, gross profit increased by approximately US\$6.4 million from approximately US\$24.2 million for the six months ended 30 June 2013 to approximately US\$30.6 million for the six months ended 30 June 2014. Gross profit margin slightly increased by approximately 0.6% from 40.5% for the six months ended 30 June 2013 to 41.1% the six months ended 30 June 2014.

#### **Other revenue**

Other revenue for the six months ended 30 June 2014 increased by approximately US\$0.5 million from approximately US\$0.4 million for the six months ended 30 June 2013. The increase was primarily due to the one-off government subsidy received in the six months ended 30 June 2014 and financing income from EMC projects.

#### **Other net loss**

Other net loss increased by approximately US\$0.1 million from approximately US\$0.1 million for the six months ended 30 June 2013 to approximately US\$0.2 million for the six months ended 30 June 2014. The loss was due to increased foreign exchange loss during the period.

#### **Selling and distribution costs**

Selling and distribution costs increased by approximately US\$1.2 million, from approximately US\$5.4 million for the six months ended 30 June 2013 to approximately US\$6.6 million for the six months ended 30 June 2014. The increase was primarily due to the increase of staff costs associated with the expansion of our sales and marketing sales force and the increase of business development expenses.

### **Administrative and other operating expenses**

Administrative and other operating expenses increased by approximately US\$2.1 million, from approximately US\$6.9 million for the six months ended 30 June 2013 to approximately US\$9.0 million for the six months ended 30 June 2014. The increase was primarily due to certain administrative expenses incurred by acquisition and continuous business and operation expansion.

### **Research and development expenses**

Research and development expenses slightly decreased from approximately US\$2.4 million for the six months ended 30 June 2013 to approximately US\$2.3 million for the six months ended 30 June 2014.

### **Finance costs**

Finance costs increased by approximately US\$0.8 million, from approximately US\$0.3 million for the six months ended 30 June 2013 to approximately US\$1.1 million for the six months ended 30 June 2014. The rise was due to an increase in average outstanding loans and borrowings during the period.

### **Income tax**

Income tax increased from approximately US\$2.2 million for the six months ended 30 June 2013 to US\$3.3 million for the six months ended 30 June 2014. The increase was mainly due to an increase in the Group's profit before taxation. The effective tax rate increased from 23.5% for the six months ended 30 June 2013 to 27.0% for the six months ended 30 June 2014. The increase was primarily due to change in composition of profits generated from different countries.

### **Profit for the period**

As a result of the foregoing factors, profit attributable to equity holders for the period increased by approximately 23.0% from approximately US\$6.2 million for the six months ended 30 June 2013 to approximately US\$7.7 million for the six months ended 30 June 2014. Net profit margin remained at about approximately 12.1% for the six months ended 30 June 2014 and the six months ended 30 June 2013.

## Working capital and financial resources

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

	As at 31 December 2013 (US\$'000)	As at <b>30 June</b> <b>2014</b> (US\$'000)
Inventories	16,216	<b>19,262</b>
Trade and other receivables	65,665	<b>80,124</b>
Trade and other payables	55,090	<b>51,051</b>
Average inventories turnover days	55	<b>73</b>
Average trade and other receivables turnover days	139	<b>177</b>
Average trade and other payables turnover days	193	<b>219</b>

Inventories increased from approximately US\$16.2 million as at 31 December 2013 to approximately US\$19.3 million as at 30 June 2014, which was primarily due to a stock up of inventory in anticipation of securing large-scale projects.

Average inventory turnover days increased from approximately 55 days for the year ended 31 December 2013 to 73 days for the six months ended 30 June 2014. The increase of inventory turnover days was due to a higher average inventory balance during the current six months period ended.

Trade and other receivables amounted to approximately US\$65.7 million and approximately US\$80.1 million as at 31 December 2013 and 30 June 2014, respectively. Such increase in trade and bills receivables was mainly due to the increase in the revenue of the Group as a result of our global expansion.

Average trade and other receivable turnover days were approximately 139 days and 177 days for the year ended 31 December 2013 and six months ended 30 June 2014, respectively. The relatively higher trade and other receivable turnover days primarily due to seasonal pattern of which the business sales in second half of the year generally performs better than first half. Therefore, the average trade and other receivable turnover days were relatively higher as compared to the full year of 2013.

Trade and other payables slightly decreased from approximately US\$55.1 million as at 31 December 2013 to approximately US\$51.1 million as at 30 June 2014. Such decrease was mainly due to a lot of trade payables carried forward from last year was due during this period.

The Group's average trade and other payable turnover days was approximately 193 days and 219 days for the year ended 31 December 2013 and six months ended 30 June 2014 respectively. The increase in trade and other payable turnover days was primarily attributable to a higher average accounts payable balance during the six months ended 30 June 2014, and our capability to negotiate for longer credit periods, in particular, to cope with the longer credit periods provided to our customers and the increased volume of our business.

### **Liquidity and financial resources**

We maintained a healthy liquidity position during the first half of 2014. We principally financed our operations by internal resources. As at 30 June 2014, we had approximately US\$42.8 million in cash and cash equivalents. Our cash and cash equivalents consist primarily of cash in the banks and on hand and deposits that are readily convertible into known amounts of cash.

As at 30 June 2014, our indebtedness consisted of short-term loans of approximately US\$25.4 million with an average annual interest rate of 5.64%, long-term loan of approximately US\$4.8 million with an average annual interest rate of 3.63% and obligations under finance lease of approximately US\$0.1 million. The short-term loans mainly represented an unsecured term loan of US\$4.9 million from China Merchant Bank, an unsecured term loan of US\$3.7 million from Bank of Communication, an unsecured term loan of US\$3.3 million from China Citic Bank, an unsecured term loan of US\$3.3 million from Huaxia Bank, an unsecured term loan of approximately US\$3.3 million from Bank of China, an unsecured term loan of approximately US\$2.4 million from Bank of Beijing, a term loan of approximately US\$3.5 million and secured bank overdraft of approximately US\$1.0 million from banks overseas.

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

Gearing ratio as at 30 June 2014, defined as loans and borrowings divided by total assets, is 13.3% (as at 31 December 2013: 9.9%).

We are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily EUR, USD and HKD. We had not used any financial instruments for hedging purposes during the period under review.

Nevertheless, our management will continue to monitor the foreign exchange exposure and is prepared to take prudent measures such as hedging when conditions are so required.

### **Pledge of assets**

As at 30 June 2014, certain of our interest-bearing bank borrowings were pledged by the Group's assets. The Group's pledged assets increased from approximately US\$16.4 million as at 31 December 2013 to approximately US\$17.8 million as at 30 June 2014 resulting primarily from the requirement of the bank.

## Contractual obligation and capital commitments

The following table sets forth our non-cancellable operating lease commitments as at 31 December 2013 and 30 June 2014. Our operating lease commitments relate primarily to our leases of office spaces, workspaces and machineries.

	As at 31 December 2013 (US\$'000)	As at <b>30 June 2014</b> (US\$'000)
Within one year	943	<b>1,445</b>
After one year but within five years	1,649	<b>1,864</b>
Total	<u>2,592</u>	<u><b>3,309</b></u>

We had no capital commitments contracted for, and authorized but not contracted for, but not provided in the financial statements as at 30 June 2014.

## Contingent liabilities

As at 30 June 2014, we did not have any material contingent liabilities.

## Off-balance sheet arrangements

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

## Employment, Training and Development

As at 30 June 2014, we had a total of 490 employees, an increase of 4.0% compared to 471 employees as at 30 June 2013. Total staff costs for the six months ended 30 June 2014 increased to approximately US\$10.5 million from approximately US\$9.7 million for the six months ended 30 June 2013, mainly due to employee and salary increments.

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



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

### **Use of proceeds from the global offering**

The Company's shares were listed on the Main Board of the Stock Exchange on 27 October 2011 with a total of 122,000,000 offer shares. The net proceeds raised from the offering was approximately HK\$74.6 million (equivalent to approximately US\$9.6 million) (the "Net Proceeds"). The Net Proceeds from the offering has been fully utilized for the proposed purposes of the proceeds set out in the prospectus of the Company dated 7 October 2011.

### **Merger and Acquisition**

On 17 April 2014, the Company (as purchaser) entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Valueworth Ventures Limited and Resuccess Investments Limited (as vendors), which together indirectly own the entire equity interest in Tongfang Energy Saving. Upon completion of the Sale and Purchase Agreement on 14 August 2014, Tongfang Energy Saving became an indirectly wholly-owned subsidiary of the Company. Please refer to the announcements of the Company dated 30 April 2014, 24 June 2014, 14 July 2014 and 14 August 2014 and the circular of the Company dated 24 June 2014 for further details.

Save as disclosed above, for the six months ended 30 June 2014, no other acquisition or disposal of subsidiaries or associates was made by us.

### **Significant investment**

For the six months ended 30 June 2014, we had no significant investment.

### **CORPORATE GOVERNANCE CODE**

Throughout the six months ended 30 June 2014, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Main Board Listing Rules.

## **MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)**

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules throughout the six months ended 30 June 2014 as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions throughout the six months ended 30 June 2014.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2014.

## **DIVIDENDS**

The board of Directors has not recommended the payment of any interim dividend for the six months ended 30 June 2014.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.technovator.com.sg>). The interim report for the six months ended 30 June 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

By Order of the Board of  
**Technovator International Limited**  
**Lu Zhicheng**  
*Chairman*

Hong Kong, 14 August 2014

*As at the date of this announcement, the executive directors of the Company are Mr. Zhao Xiaobo and Mr. Seah Han Leong; the non-executive directors are Mr. Lu Zhicheng, Mr. Fan Xin, Mr. Ng Koon Siong and Mr. Liu Tianmin and the independent non-executive directors are Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua.*