

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Technovator International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company nor is it calculated to invite any such offer.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



TECHNOVATOR INTERNATIONAL LIMITED
同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Company Registration No: 200507127G)

(Stock Code: 1206)

- (1) MAJOR AND CONNECTED TRANSACTION;**
(2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES;
(3) APPLICATION OF WHITEWASH WAIVER;
(4) CONTINUING CONNECTED TRANSACTIONS;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to
Independent Board Committees and Independent Shareholders**



A letter from the Board is set out on pages 9 to 39 of this circular. Letters from the Independent Board Committees to the Independent Shareholders are set out on pages 40 to 42 of this circular. A letter of advice from Quam Capital Limited, the independent financial adviser to the Independent Board Committees and the Independent Shareholders, is set out on pages 43 to 83 of this circular.

A notice convening the extraordinary general meeting ("EGM") of the Company to be held on 14 July 2014 at 10:00 am at 10/F, United Centre, 95 Queensway, Hong Kong, is set out on pages 318 to 320 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed herein.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

CONTENTS

	<i>Page</i>
DEFINITIONS	1–8
LETTER FROM THE BOARD	9–39
LETTER FROM THE CONNECTED TRANSACTIONS IBC	40–41
LETTER FROM THE WHITEWASH WAIVER IBC	42
LETTER FROM QUAM CAPITAL	43–83
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	84–155
APPENDIX IIA — FINANCIAL INFORMATION OF THE TARGET GROUP	156–194
APPENDIX IIB — FINANCIAL INFORMATION OF TFRH INVESTMENTS GROUP	195–233
APPENDIX IIC — FINANCIAL INFORMATION OF EXCEL PERFECT	234–251
APPENDIX III — VALUATION REPORT ON THE TARGET COMPANY .	252–294
APPENDIX IV — REPORT FROM THE REPORTING ACCOUNTANTS AND LETTER FROM THE INDEPENDENT FINANCIAL ADVISER IN RELATION TO THE VALUATION OF THE TARGET COMPANY ...	295–298
APPENDIX V — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP	299–305
APPENDIX VI — GENERAL INFORMATION	306–317
NOTICE OF EGM	318–320

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the acquisition of the Sale Shares from the Vendors by the Purchaser pursuant to the Sale and Purchase Agreement, and all transactions contemplated thereunder
“acting in concert”	has the same meaning as defined in the Takeovers Code
“Announcement”	the announcement of the Company dated 30 April 2014 relating to, among others, the Acquisition, the Specific Mandate, the Procurement Agreement and the Whitewash Waiver
“Annual Caps”	annual caps for the continuing connected transactions contemplated under the Procurement Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day other than a Saturday or Sunday on which banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Chairman”	the chairman of the Board
“Company”	Technovator International Limited, a company incorporated in Singapore with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Connected Transactions IBC”	an independent board committee, comprising all the independent non-executive Directors, namely Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, established to advise the Independent Shareholders as to whether the terms of the Acquisition (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole and to give its recommendation as to voting in respect of the Acquisition (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps)
“Consideration”	the aggregate consideration of RMB380 million (equivalent to approximately HK\$478.4 million) payable by the Company to the Vendors pursuant to the Sale and Purchase Agreement, which will be satisfied by the issue and allotment of the Consideration Shares
“Consideration Shares”	an aggregate of 119,608,189 Shares, comprising 89,706,142 and 29,902,047 Shares to be issued and allotted by the Company to Resuccess and Valueworth respectively as payment of the Consideration
“Controlling Shareholder”	同方股份有限公司 (Tsinghua Tongfang Co., Ltd*), formerly known as 清華同方股份有限公司 (Tsinghua Tongfang Company Limited*), a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所)
“Controlling Shareholder Concert Parties”	parties acting in concert or parties presumed acting in concert with the Controlling Shareholder within the definition under the Takeovers Code, including Resuccess, Valueworth, OP Financial, Mr. Lu and their respective associates, the details of whose holding of interest in the Company as at the Latest Practicable Date are set out under the section headed “EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” in the letter from the Board set out in this circular
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on 14 July 2014 at 10:00 am at 10/F, United Centre, 95 Queensway, Hong Kong, for the Shareholders to consider and, if thought fit, approve the Acquisition, the Specific Mandate, the Procurement Agreement (and the proposed Annual Caps) and the Whitewash Waiver
“Enlarged Group”	the Group as enlarged by the Acquisition
“Excel Perfect”	Excel Perfect Investments Limited, an investment holding company incorporated in Hong Kong with limited liability
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Euro”	the lawful currency of European Union
“Fortune Continent”	Fortune Continent Investments Limited, an investment holding company incorporated in the BVI with limited liability
“Group”	the Company and its subsidiaries (as defined in the Listing Rules) from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$” or “HKD”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Board Committees”	collectively, the Connected Transactions IBC and the Whitewash Waiver IBC
“Independent Shareholders”	<p>(i) as regards the Acquisition, the Specific Mandate and the Procurement Agreement, the Shareholders other than the Controlling Shareholder, Resuccess, their respective associates, Valuworth and other Shareholders who have a material interest in the Acquisition, the Specific Mandate and the Procurement Agreement; or</p> <p>(ii) as regards the Whitewash Waiver, the Shareholders other than the Controlling Shareholder, Resuccess, Valuworth, the Controlling Shareholder Concert Parties and other Shareholders who are interested or involved in the Acquisition and the Whitewash Waiver</p>

DEFINITIONS

“Last Trading Day”	17 April 2014, being the last trading date immediately prior to the date on which the Shares were suspended from trading on the Stock Exchange pending the release of the Announcement
“Latest Practicable Date”	20 June 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Management Team”	a group of persons, mainly consisting of certain members of the management team of the Target Company, led by Mr. Fan
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 of the Listing Rules)
“Mr. Fan”	Mr. Fan Xin, the non-executive Director, the chairman of the Target Company and the president of the Controlling Shareholder
“Mr. Lu”	Mr. Lu Zhicheng, the Chairman, a director of the Controlling Shareholder and a party acting in concert with the Controlling Shareholder
“OP Financial”	OP Financial Investments Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on main board of the Stock Exchange
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Procurement Agreement”	the agreement entered into between the Target Company and the Controlling Shareholder on 21 April 2014 (the details of which, including the proposed Annual Caps, are set out under the section headed “CONTINUING CONNECTED TRANSACTIONS” in the letter from the Board set out in this circular)
“Purchaser”	the Company

DEFINITIONS

“Quam Capital”	Quam Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to advise the Connected Transactions IBC and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps), and the Whitewash Waiver IBC and the Independent Shareholders in relation to the Whitewash Waiver
“Relevant Period”	the period beginning six months immediately prior to the announcement of the Company dated 17 April 2014 (being the date of the Sale and Purchase Agreement) and ending on the Latest Practicable Date
“Relevant Securities”	has the meaning given to it under Note 4 to Rule 22 of the Takeovers Code
“Resuccess”	Resuccess Investments Limited, an investment holding company incorporated in the BVI with limited liability, a substantial shareholder of the Company and an indirect wholly-owned subsidiary of the Controlling Shareholder
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 17 April 2014 entered into between the Purchaser and the Vendors in relation to the sale and purchase of the Sale Shares
“Sale Shares”	collectively, the shares of TFRH Investments and Excel Perfect representing 100% interest of TFRH Investments and 100% interest of Excel Perfect respectively, which in turn own 75% and 25% of the equity interest in the Target Company respectively
“Share(s)”	ordinary shares in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SIC”	the Securities Industry Council of Singapore

DEFINITIONS

“Simple Average Price”	the average of the closing prices over a certain time period
“Singapore”	the Republic of Singapore
“Singapore Code Waiver”	a waiver from the SIC in respect of the application of the Singapore Takeovers Code to the Company
“Singapore Takeovers Code”	the Singapore Code on Takeovers and Mergers
“Singapore Whitewash Waiver”	a waiver from the SIC pursuant to Note 1 of the Notes on dispensations from Rule 14 of the Singapore Takeovers Code in respect of the obligation on the part of the Controlling Shareholder, the Vendors and their concert parties to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by them as a result of the Company issuing and allotting the Consideration Shares to the Vendors
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders at the EGM to issue and allot new ordinary shares of the Purchaser to satisfy the issue and allotment of Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	同方節能工程技術有限公司 (Tongfang Energy Saving Engineering Technology Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC with limited liability, owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect, respectively
“Target Group”	TFRH Investments, Excel Perfect, the Target Company and its subsidiaries
“Team Thrive”	Team Thrive Investments Limited, an investment holding company incorporated in the BVI with limited liability
“TFRH Investments”	TFRH Investments Limited, an investment holding company incorporated in the Cayman Islands with limited liability

DEFINITIONS

“TFRH Investments Group”	TFRH Investments and its subsidiaries
“Tongfang Artificial”	清華同方人工環境有限公司 (Tsinghua Tongfang Artificial Environment Co., Ltd*), a company established in the PRC with limited liability and owned as to 97% of its equity interest by the Controlling Shareholder
“Tongfang Kawasaki”	同方川崎節能設備有限公司 (Tongfang Kawasaki Energy Saving Equipment Company Limited*), a limited liability company incorporated in the PRC and owned as to 50% by Tongfang Artificial and 50% by Kawasaki Thermal Engineering Co., Ltd. (日本川重冷熱工業株式會社) as of the Latest Practicable Date
“US\$” or “USD”	the United States dollar(s), the lawful currency of the United States
“Valuation Report”	the valuation report dated 20 June 2014 issued by the Valuer in respect of the Target Company, the text of which is set out in Appendix III to this circular
“Valuer”	北京卓信大華資產評估有限公司 (Beijing Zhuoxingdahua Appraisal Co., Ltd*), an independent professional valuer
“Valuworth”	Valuworth Ventures Limited, an investment holding company incorporated in the BVI and owned as to 12%, 80% and 8% of its equity interest by Fortune Continent, Team Thrive and OP Financial respectively
“Vendors”	Resuccess (being the vendor of 100% equity interest in TFRH Investments) and Valuworth (being the vendor of 100% equity interest in Excel Perfect)
“Volume Weighted Average Price”	the average price calculated by multiplying the trading volume at each price level by the respective price and dividing by the trading volume over a certain time period
“Whitewash Waiver” or “HK Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Controlling Shareholder to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by the Controlling Shareholder and parties acting in concert with it, as a result of the Company issuing and allotting the Consideration Shares to the Controlling Shareholder

DEFINITIONS

“Whitewash Waiver IBC” an independent board committee, comprising all the non-executive Directors and independent non-executive Directors (other than Mr. Lu and Mr. Fan who are interested in the Acquisition and/or the Whitewash Waiver), namely Mr. Liu Tianmin, Mr. Ng Koon Siong, Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, established to advise the Independent Shareholders as to whether the Whitewash Waiver is fair and reasonable and in the interest of the Company and the Shareholders as a whole and to give its recommendation as to voting in respect of the Whitewash Waiver

“%” per cent

* *The English translation is for identification purposes only*

For the purpose of illustration only, amounts denominated in RMB in this circular have been translated into HK\$ at the rate of HK\$1 = RMB0.7943. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.

ROUNDING

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

LETTER FROM THE BOARD



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Company Registration No: 200507127G)

(Stock Code: 1206)

Executive Directors:

Mr. Zhao Xiaobo

Mr. Seah Han Leong

Non-executive Directors:

Mr. Lu Zhicheng

Mr. Fan Xin

Mr. Liu Tianmin

Mr. Ng Koon Siong

Independent non-executive Directors:

Mr. Fan Ren Da Anthony

Mr. Chia Yew Boon

Ms. Chen Hua

Registered office:

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

24 June 2014

To the Shareholders

Dear Sir or Madam,

- (1) MAJOR AND CONNECTED TRANSACTION;**
(2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES;
(3) APPLICATION FOR WHITEWASH WAIVER;
(4) CONTINUING CONNECTED TRANSACTIONS;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement dated 30 April 2014 in relation to, among other things, the Acquisition, the Specific Mandate, the continuing connected transactions under the Procurement Agreement and the Whitewash Waiver.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information of the Acquisition; (ii) a letter of recommendation from the Connected Transactions IBC to the Independent Shareholders in respect of the Acquisition, the Specific Mandate and the Procurement Agreement (and the proposed Annual Caps); (iii) a letter of recommendation from the Whitewash Waiver IBC to the Independent Shareholders in respect of the Whitewash Waiver; (iv) a letter of advice from Quam Capital to the Connected Transactions IBC, the Whitewash Waiver IBC and the Independent Shareholders in respect of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) and the Whitewash Waiver; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules and the Takeovers Code.

THE ACQUISITION

The principal terms of the Sale and Purchase Agreement are as follows:

Date: 17 April 2014

Parties:

- (i) Vendors:
 - (a) Resuccess, being the holder of 100% of the equity interest in TFRH Investments; and
 - (b) Valueworth, being the holder of 100% of the equity interest in Excel Perfect
- (ii) Purchaser: the Company

Resuccess is a substantial shareholder of the Company and an indirect wholly-owned subsidiary of the Controlling Shareholder. Resuccess is a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Valuworth is owned as to 12%, 80% and 8% of its equity interest by Fortune Continent, Team Thrive and OP Financial respectively. Fortune Continent is wholly-owned by Ms. Tso Lap. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ms. Tso Lap, Fortune Continent and OP Financial are third parties independent of and not connected with the Company or any of its connected persons. Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them of 100% of the equity interest in Team Thrive pursuant to a series of arrangements among Ms. Tso Lap (being the registered holder of the entire equity interest in Team Thrive), the Management Team led by Mr. Fan and other parties. As such, Team Thrive and Valuworth shall be regarded as associates of Mr. Fan and therefore connected persons of the Company under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ms. Tso Lap is not a shareholder of the Company.

Acquisition target: The Sale Shares (being the shares of TFRH Investments representing 100% of the equity interest in TFRH Investments, together with the share of Excel Perfect representing 100% of the equity interest in Excel Perfect. TFRH Investments and Excel Perfect in turn own 75% and 25% of the equity interest in Target Company respectively).

Consideration: RMB380 million (equivalent to approximately HK\$478.4 million) which was arrived at after arm's length negotiations between the parties taking into consideration of a preliminary valuation of the Target Company prepared by the Valuer. The Consideration in the amount of RMB285 million (equivalent to approximately HK\$358.8 million) and RMB95 million (equivalent to approximately HK\$119.6 million) shall be paid to Resuccess and Valuworth respectively. The Consideration shall be satisfied by the issue and allotment of a total of 119,608,189 Consideration Shares, out of which 89,706,142 Consideration Shares will be issued and allotted to Resuccess and 29,902,047 Consideration Shares will be issued and allotted to Valuworth, credited as fully paid up (the issue price being HK\$4 per Consideration Share).

The Valuation Report is set out in Appendix III to this circular. According to the Valuation Report, the valuation of the Target Company as at 31 March 2014 was approximately RMB380.8 million.

LETTER FROM THE BOARD

- Consideration Shares:** The Consideration Shares represent (i) approximately 22.9% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 18.7% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.
- Ranking:** The Consideration Shares shall rank pari passu with all other Shares in issue as at the date of the allotment and shall be entitled to all dividends, other distributions, interests and entitlements as from the date of the allotment.
- Issue price:** The issue price of the Consideration Shares of HK\$4 per Consideration Share represents:
- (i) a discount of approximately 12.3% and 13.0% to the respective Volume Weighted Average Price and the closing price of HK\$4.56 and HK\$4.60 per Share as quoted on the Stock Exchange on the Last Trading Day;
 - (ii) a discount of approximately 10.3% and 11.1% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.46 and HK\$4.50 per Share for the last five consecutive trading days up to and including the Last Trading Day;
 - (iii) a discount of approximately 10.5% and 11.5% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.47 and HK\$4.52 per Share for the last fifteen consecutive trading days up to and including the Last Trading Day;
 - (iv) a discount of approximately 9.9% and 10.9% to the respective Volume Weighted Average Price and Simple Average Price prices of HK\$4.44 and HK\$4.49 per Share for the last thirty consecutive trading days up to and including the Last Trading Day;
 - (v) a discount of approximately 4.8% and 8.0% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.20 and HK\$4.35 per Share for the last forty consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (vi) a discount of approximately 1.5% and 2.4% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.06 and HK\$4.10 per Share for the last fifty consecutive trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 0.5% and 2.0% to the respective Volume Weighted Average Price and Simple Average Price of HK\$3.98 and HK\$3.92 per Share for the last sixty consecutive trading days up to and including the Last Trading Day; and
- (viii) a premium of approximately 185.7% over the net asset value per Share attributable to Shareholders of approximately HK\$1.4 as at 31 December 2013.

The issue price of the Consideration Shares was arrived at after arm's length negotiations among the Purchaser and the Vendors after taking into account (i) the thin trading volume of the Shares and (ii) volatility and fluctuation of the closing price of the Shares for the past two months prior to the Last Trading Day which the Directors consider the gradual increase in closing price may be the result of the investor speculation in expectation of the positive performance of the Company for its 2013 annual result.

Conditions precedent:

Completion shall be subject to, amongst others, the following conditions precedent:

- (i) the passing of a resolution by the Independent Shareholders at the EGM approving (a) the Acquisition; (b) the Specific Mandate; and (c) the Procurement Agreement;
- (ii) the passing of resolution(s) by the Independent Shareholders at the EGM approving the HK Whitewash Waiver and if applicable, the Singapore Whitewash Waiver;
- (iii) the Stock Exchange having approved the listing of, and granted the permission to deal in, the Consideration Shares and such approval not having been revoked or amended;

LETTER FROM THE BOARD

- (iv) the Executive having granted and not having withdrawn, or revoked such grant, of the HK Whitewash Waiver and the fulfillment of all conditions, if any, attached to it;
- (v) the grant by the SIC of either (a) the Singapore Whitewash Waiver or (b) the Singapore Code Waiver (on conditions, if any, reasonably acceptable to the Purchaser and to the extent that any such conditions are required to be fulfilled on or before the Completion Date, they are so fulfilled) and such Singapore Whitewash Waiver or, as the case may be, the Singapore Code Waiver not having been withdrawn or revoked;
- (vi) the Purchaser notifying the Vendors in writing that it is satisfied in reliance on the warranties as to:
 - (a) the respective financial, contractual, tax and trading positions and prospects of each member of the Target Group; and
 - (b) the title of the members of the Target Group to their respective assets;
- (vii) the Vendors having complied fully with their obligations specified in the Sale and Purchase Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by them under the Sale and Purchase Agreement;
- (viii) there having been no material adverse change since the date of the Sale and Purchase Agreement;
- (ix) the valuation of the Target Company as appraised by the Valuer as of 31 March 2014 and stated in the valuation report shall be not less than RMB380 million;
- (x) all other necessary consents from third parties (including governmental or official or regulatory authorities) and all other necessary consents and approvals required pursuant to any legal or regulatory requirements in respect of the sale and purchase of the Sale Shares having been obtained; and

LETTER FROM THE BOARD

- (xi) no statute, regulation or decision which would prohibit, restrict or materially delay the execution, delivery or performance of the transaction documents, the consummation of the transactions contemplated by the Sale and Purchase Agreement or the operation of the members of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority whether in Hong Kong, the PRC, the BVI, the Cayman Islands or elsewhere.

Save for the conditions precedent set out in paragraphs (vi), (vii) and/or (viii) above that can be waived by the Purchaser in its absolute discretion, none of the conditions precedent can be waived. In the event that any of the conditions precedent shall not have been fulfilled or waived by 30 September 2014 (or such other date as may be agreed between the Purchaser and the Vendors), the Purchaser shall not be bound to proceed with the purchase of the Sale Shares, and the Sale and Purchase Agreement shall cease to be of any effect save in respect of claims arising from any antecedent breaches of the Sale and Purchase Agreement.

With regard to the condition set out in paragraph (v), on 20 May 2014, the Singapore Code Waiver had been obtained by the Company. Further information on the Singapore Code Waiver is set out under the section headed "IMPLICATIONS OF THE ACQUISITION UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER".

In addition, the condition set out in paragraph (ix) is satisfied as at the Latest Practicable Date.

Completion:

Completion shall take place on such date as may be agreed in writing between the Purchaser and the Vendors following written notification by the Purchaser to the Vendors of the fulfilment (or waiver) to the satisfaction of the Purchaser of the conditions precedent, and in any event within 10 Business Days after the date of actual fulfilment (or waiver) of the conditions precedent to the satisfaction of the Purchaser.

LETTER FROM THE BOARD

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial results of the Company.

Application for listing:

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be issued and allotted pursuant to the Sale and Purchase Agreement. There is no restriction on the subsequent sale of the Consideration Shares by the Vendors.

Governing law:

Hong Kong law

VALUATION OF THE TARGET COMPANY AND IMPLICATIONS UNDER THE LISTING RULES AND TAKEOVERS CODE

The Valuation Report was prepared based on a discounted cash flow method. Therefore, the valuation of the Target Company in the Valuation Report constitutes a profit forecast under Rule 14.61 of the Listing Rules and Rule 10.3(b) of the Takeovers Code (the “**Profit Forecast**”). As such, the Company is required to comply with Rules 14.60A, 14.62 and 14A.56(8) of the Listing Rules and Rule 10 of the Takeovers Code.

In compliance with the requirements under Rule 14.62(2) of the Listing Rules, the reporting accountants of the Company, KPMG has reported the calculations of the discounted future cash flows in the Valuation Report.

In addition, the Profit Forecast has also been reviewed by Quam Capital in accordance with Rule 10.3(b) of the Takeovers Code.

Quam Capital has reviewed the Profit Forecast and discussed with the Valuer regarding the Profit Forecast, including, in particular, the valuation approach, and the bases and assumptions adopted in the Valuation Report prepared by the Valuer in the course of their work. Quam Capital has also considered the letter from KPMG as set out in Appendix IV to this circular regarding their opinion on the calculations of the discounted future cash flows on which the valuation is based. On the basis of the foregoing and without giving any opinion on the reasonableness of, bases and assumptions on the valuation method adopted in the Valuation Report prepared by the Valuer, for which the Valuer and the Company are responsible, Quam Capital is of the opinion that and the Board confirmed that the Profit Forecast included in the Valuation Report has been made after due and care consideration.

The Valuation Report together with the bases and assumptions upon which it was prepared are set out in Appendix III to this circular. The full text of the letters from KPMG and Quam Capital containing their opinions on the Profit Forecast is set out in Appendix IV to this circular.

LETTER FROM THE BOARD

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Name of shareholders	As at the Latest Practicable Date		After the issue and allotment of the Consideration Shares upon Completion (assuming that no additional Shares are issued and no outstanding options in respect of the Shares are exercised before Completion)	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Controlling Shareholder and the Controlling Shareholder Concert Parties				
The Controlling Shareholder <i>(Note 1)</i>	92,000,000	17.64%	92,000,000	14.35%
Resuccess <i>(Note 1)</i>	80,000,000	15.34%	169,706,142	26.47%
Valuworth <i>(Note 2)</i>	0	0.00%	29,902,047	4.66%
Sub-total of shareholding interests owned by the Controlling Shareholder and the Controlling Shareholder Concert Parties	172,000,000	32.98%	291,608,189	45.48%
Other Shareholders				
Zana China Fund L.P.	65,436,320	12.55%	65,436,320	10.21%
Mr. Seah Han Leong <i>(Note 3)</i>	18,120,000	3.47%	18,120,000	2.83%
Mr. Zhao Xiaobo <i>(Note 3)</i>	5,120,000	0.98%	5,120,000	0.80%
Public shareholders	260,843,680	50.02%	260,843,680	40.68%
Total	521,520,000	100.00%	641,128,189	100.00%

Note 1: Resuccess is a substantial shareholder of the Company and an indirect wholly-owned subsidiary of the Controlling Shareholder and a party acting in concert with the Controlling Shareholder under the Takeovers Code. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the Controlling Shareholder and Resuccess, there are no other associates of the Controlling Shareholder who are shareholders of the Company.

Note 2: Valuworth is regarded as a party acting in concert with the Controlling Shareholder under the Takeovers Code.

Note 3: Mr. Seah Han Leung and Mr. Zhao Xiaobo are executive Directors.

LETTER FROM THE BOARD

Interests in Options in respect of the Securities of the Company held by the Controlling Shareholder Concert Parties

Oriental Patron Securities Limited, an associate of OP Financial, holds options to subscribe for an aggregate of 1,800,000 Shares as of the Latest Practicable Date. Oriental Patron Asia Limited, an associate of OP Financial, acts as the arranger of the Acquisition and is responsible for coordination of the overall process of the Acquisition. OP Financial provided financial assistance in connection with the investment by Valueworth through Excel Perfect in the 25% of equity interest in the Target Company in 2013. Accordingly, OP Financial and its associates are regarded as parties presumed acting in concert with the Controlling Shareholder.

Mr. Lu holds options to subscribe for an aggregate of 8,800,000 Shares as of the Latest Practicable Date. Such options are not yet vested as of the Latest Practicable Date. Mr. Lu, being a director of the Controlling Shareholder, is a party presumed acting in concert with the Controlling Shareholder.

INFORMATION ABOUT THE TARGET GROUP

The Target Company is a wholly foreign-owned enterprise with limited liability which was established in the PRC and is owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect respectively. Together with its subsidiaries, the Target Company is principally engaged in the industrial and architectural heating and cooling energy-saving solution market with the dual business models of Engineering, Procurement & Construction (EPC) and Energy Management Contract (EMC). The business activities under EPC are mainly provisions of surveying, designing, procurement, and construction services of energy saving related projects, whereas the business activities under EMC are the provisions of construction as well as management services following the completion of the construction work of project infrastructure. The main difference between EPC and EMC lies in their respective phases of revenue contribution of the project in which revenue under EPC is generated from the construction services whereas revenue under EMC is generated from the amount of energy being saved or reduced during the course of the operation of business activities by the customers following the completion of the construction work of project infrastructure. According to the management of the Target Company, the revenue-sharing period (or, the energy-saving benefits sharing period) of EMC projects ranges from 6 to 12 years.

LETTER FROM THE BOARD

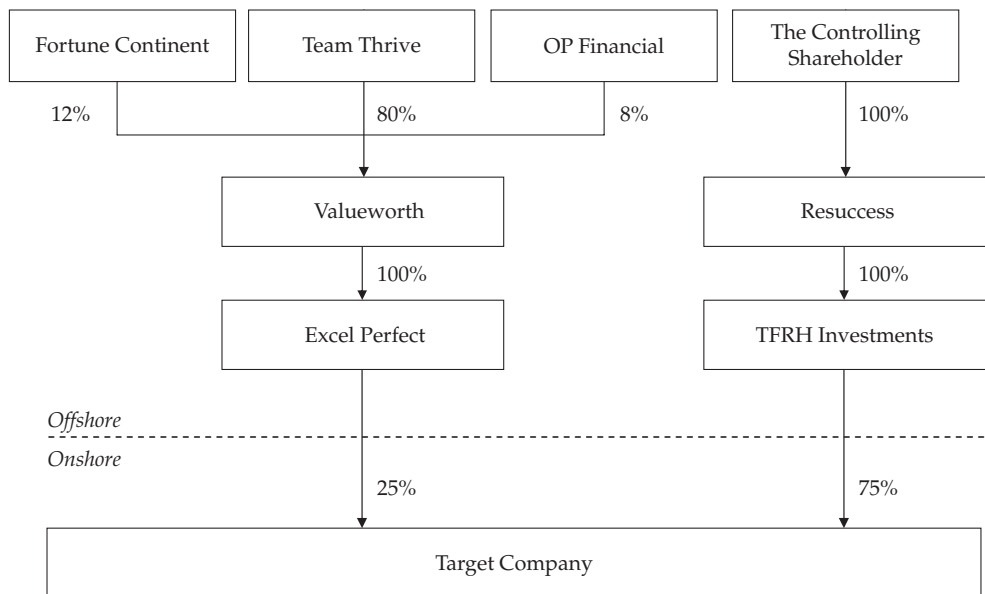
In terms of techniques in particular, the Target Company primarily promotes the technology of absorption heat pump system (吸收式熱泵系統) in the heating field, as well as the dehumidifying blast technology on blast furnace (高爐鼓風脫濕技術) and temperature and humidity separate control system for double-cold-source (雙冷源溫濕分控系統) in the cooling field. The operations of the Target Company and its major customers are mainly located in Heilongjiang Province, Hebei Province, Shandong Province, Liaoning Province, Shaanxi Province and Guangdong Province in the PRC. In terms of the scale of operation, as at 31 March 2014, the Target Group in total had 16 legally binding contracts signed, including 14 EMC contracts and 2 EPC contracts. According to the Valuation Report, among the 14 EMC projects, there are 13 EMC projects involved in waste heat recovery, with the remaining project involved in moisture removal. The 2 EPC projects are involved in ice storage system. The contract amount ranges from RMB7 million to RMB120 million for each of the EMC contracts. It is expected that the construction work of all the 14 EMC projects and the 2 EPC projects will complete by the end of 2014.

TFRH Investments is a company established in the Cayman Islands with limited liability and its principal business is investment holding.

Excel Perfect is a company established in Hong Kong with limited liability and its principal business is investment holding.

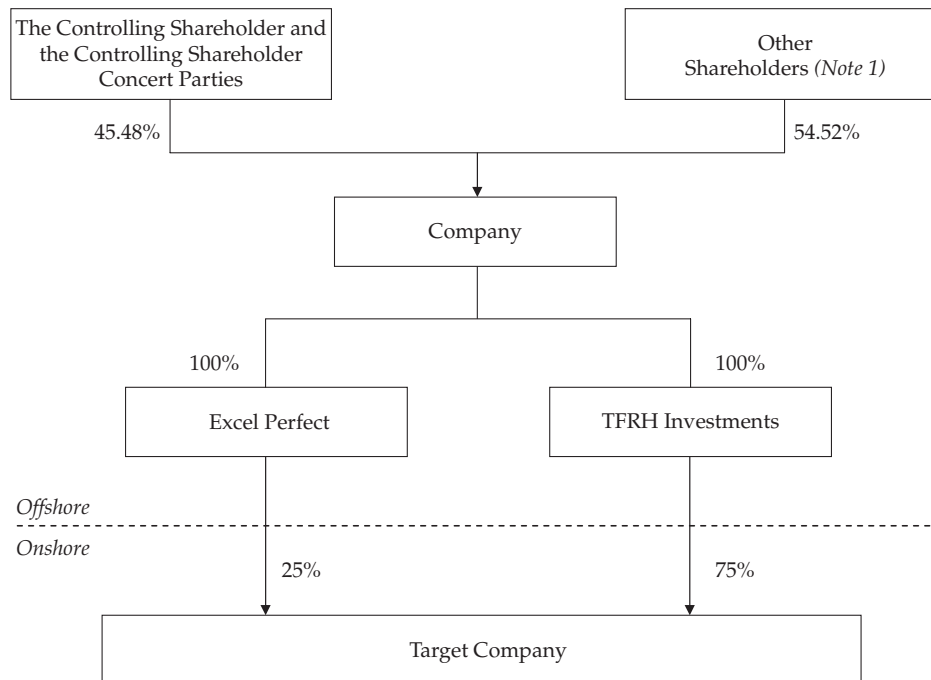
Structure of the Target Group before and after Completion

As at the Latest Practicable Date and immediately before Completion:



LETTER FROM THE BOARD

Immediately after Completion (i.e. after the Consideration Shares are issued, and assuming that no additional Shares are issued and no outstanding options in respect of the Shares are exercised before Completion):



Note 1: Approximately 40.68% of equity interest in the Company will be held by the public shareholders upon Completion.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in, among others, the design, manufacturing and distribution of energy management systems (EMS) and provision of solutions services.

The EMS business in the PRC alone represents approximately 34.09% of the total profit of the Company for the year ended 31 December 2013. The EMS segment in the PRC recorded 61.21% and 67.77% year-on-year increase in terms of generated profit and revenue for the year ended 31 December 2013, which outperformed other business segments of the Company and was the key driver to the Company's profit and revenue growth. Accordingly, the Directors consider that it is beneficial for the Company to seek suitable investment opportunities from time to time to seize the growing potential of the energy management market and enhance the Company's position in this segment.

LETTER FROM THE BOARD

In addition, the Directors have also considered the following factors when deciding to proceed with the Acquisition:

Positive industry outlook and government support

As set out in “The 12th Five-Year Plan”, the energy saving industry is expected to be one of the seven strategic emerging industries to be developed in the PRC. The PRC government has committed to meet a 16% reduction per unit of GDP in energy use and a 17% reduction per unit of GDP in carbon dioxide emissions. Also, the potential increase in energy costs provides companies with more momentum to procure energy saving services.

The Directors also noted the policies recently issued by the PRC government for supporting and promoting the energy saving industry, in particular:

- i. the 12th Five Year Building Energy Saving Special Plan issued by the Ministry of Housing and Urban Development (“MOHURD”) in May 2012, which targets to save 116 million tonnes of standard coal in building energy conservation by 2015; and
- ii. the Chinese Green Building Movement Plan issued by MOHURD in early 2013, which emphasises the energy efficiency of buildings with specific targets and promotions in building energy conservation during “The 12th Five-Year Plan” period and sets subsidies for green buildings.

After taking into account of the above and the continuous and steady economic growth in the PRC, the commitment of the PRC government to the reduction of carbon emission, as well as the incentive provided by the PRC government for using environmental friendly products, the Directors are optimistic of the future demand of the energy management solution industry in which the Target Group operates.

Unique techniques in the heating and cooling energy-saving business

The Target Company is engaged in industrial and architectural heating and cooling energy-saving business. In terms of techniques in particular, the Target Company primarily promotes the technology of absorption heat pump system (吸收式熱泵系統) in the heating field, as well as the dehumidifying blast technology on blast furnace (高爐鼓風脫濕技術) and temperature and humidity separate control system for double-cold-source (雙冷源溫濕分控系統) in the cooling field.

Given that the current business of the Group is mainly the design, manufacturing and distribution of energy management system in architectural usage, upon Completion, the Directors believe that the Target Company will provide the Company with unique heating and cooling energy-saving techniques in industrial and architectural usage. In addition, the Company would benefit from the expanded pools of clientele by sharing information and technology across the two market segments under the energy-saving solution industry. Accordingly, the

LETTER FROM THE BOARD

Directors consider that the Acquisition serves as a platform for the Enlarged Group to expand its share in the energy-saving industry across the PRC.

Positive operating prospect

The Directors noted that the Target Company had achieved continuous progression in developing heating and cooling business under the dual business modes of EMC and EPC. According to the Valuation Report, with more contracts completing the phase of the construction and entering into the revenue sharing period, it is expected that the operating revenue of the Target Group would improve evidently since 2014, and as such, the Directors are of the view that the Acquisition is likely to contribute positively in terms of operating revenue to the Enlarged Group. Based on the information provided by the Vendors, as at 31 March 2014, the Target Group in total had (i) 16 signed legally binding contracts, including 14 EMC contracts and 2 EPC contracts. The terms of EMC contracts are between 6 to 12 years with contract amounts ranging from RMB7 million to RMB120 million. Out of all EMC contracts, there are 5 EMC contracts under which project construction had completed whereas revenue generated during the energy-saving benefits sharing period started accruing and there are 9 EMC contracts under which project construction had commenced; (ii) 16 signed letters of intent, including 12 EMC letters of intent and 4 EPC letters of intent, of which under 7 EMC letters of intent feasibility research had been completed. It is proposed that contracts will be signed in around the next two years. Please see the section headed “VII. Valuation methodology — (III) The Appraisal Process of Income Approach — 2. Future Revenue Forecast — (1) Operating Revenue Forecast” in the Valuation Report (as set out Appendix III to this circular) for the details of the projects.

Profitability and recurring cash flow generation

EMC is a capital intensive model, whereby EMC providers normally bear the project costs before obtaining returns at later stages of implementation of the contracts through sharing of the revenue generated as a result of the energy saved from the EMC projects. In the past years, the Target Company was in its development and start-up stage of its EMC business segment which requires significant set up costs for the business and operation establishment and investment costs for each new project which the Directors expect has been and will be funded by the recurring cash flow and bank loan facilities. Once more projects are implemented and completed, the operating revenue of the Target Company would improve significantly and a stable revenue can be generated from the Target Company’s customers as the project overhead costs could be economically shared by the increased number of projects. The Directors consider that, given the duration of revenue generated from the energy-saving sharing of the EMC projects are normally in the range of six to twelve years upon the completion of the construction work of project infrastructure, the EMC business of the Target Company can generate a recurring cash flow to the Enlarged Group upon Completion.

LETTER FROM THE BOARD

Having considered the abovementioned reasons and benefits, the Directors (including members of the Independent Board Committees) are of the view that the Acquisition offers the Company a good opportunity to develop its business and enhance its income stream in the energy management solution market and are of the opinion that the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate), which have been agreed after arm's length negotiations between the Purchaser and the Vendors, are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Such Directors' view has taken into account the fact that the Target Group has a loss-making track record for the financial year ended 31 December 2013 and the net current liabilities position as at 31 December 2013 (as set out in the below section headed "AUDITED FINANCIAL INFORMATION — (A) Audited Combined Financial Information of the Target Group" as well as the accountants' report of the Target Group set out in Appendix IIA to this circular).

AUDITED FINANCIAL INFORMATION

The Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, have prepared the accountants' reports in respect of:

1. audited combined financial information of the Target Group;
2. audited combined financial information of TFRH Investments Group; and
3. audited financial information of Excel Perfect

as set out in Appendices IIA, IIB and IIC to this circular respectively.

Under Rule 4.09(2) of the Listing Rules, in connection with the acquisition of more than one business and/or company and/or group of companies, the reporting accountants must report on the individual financial histories of results and the individual balance sheets of each of those businesses, companies or groups of companies. Since the Sale and Purchase Agreement provides for the acquisition of 100% equity interest of TFRH Investments and 100 % equity interest of Excel Perfect by the Company, KPMG, being the Company's reporting accountants, has prepared (i) the accountants' report of TFRH Investments Group; and (ii) the accountants' report of Excel Perfect, as set out in Appendices IIB and IIC to this circular respectively in compliance with Rule 4.09(2).

The Directors consider that since the intention of the Acquisition is to acquire the underlying 100% equity interest of the Target Company (which is owned as to 75% and 25% by TFRH Investments and Excel Perfect respectively), the accountants' report of the Target Group as set out in Appendix IIA to this circular (which combines financial information of TFRH Investments Group, Excel Perfect, the Target Company and its subsidiaries (excluding the assets, liabilities and results of operations of the Retained

LETTER FROM THE BOARD

Business**) would be more meaningful in facilitating the Shareholders and the potential investors to form a fair, accurate, complete and integrated view of the financial position of the Target Company, which is essentially the subject matter of the Acquisition. Accordingly, the Directors are of the view that, in addition to Appendices IIB and IIC to this circular which contain the individual financial information of TFRH Investments Group and Excel Perfect respectively, the Shareholders are advised to read Appendix IIA which contains the combined financial information of the Target Group and is the most relevant representation of the financial information of the underlying subject matter to be acquired under the Acquisition.

(A) Audited Combined Financial Information of the Target Group

Set out below is the audited combined financial information of the Target Group for the years ended 31 December 2011, 2012 and 2013 prepared under Hong Kong Financial Reporting Standards:

	For the year ended 31 December		
	2011	2012	2013
	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>
Turnover	–	50,522	110,601
Net profit/(loss) before tax	(455)	2,198	(15,826)
Net profit/(loss) after tax	(372)	1,324	(12,562)
	As at 31 December		
	2011	2012	2013
	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>
Current assets	54,549	138,068	241,632
Current liabilities	7,072	98,198	306,081
Net current assets/(liabilities)	47,477	39,870	(64,449)
Total assets	83,600	301,330	541,940
Total liabilities	33,972	250,378	478,008
Net assets	49,628	50,952	63,932

Shareholders are advised to read the above information in conjunction with the accountants' report and other financial information of the Target Group as set out in Appendix IIA to this circular.

The Directors noted the loss-making track record of the Target Group for the financial year ended 31 December 2013 and the net current liabilities position as at 31

** "Retained Business" refers to certain business (currently retained by the Controlling Shareholder) which are clearly delineated from the Target Company's existing energy management solution business, and were disposed of by the Target Company to the Controlling Shareholder pursuant to a sale and purchase agreement dated 31 March 2013 entered into between the Target Company and the Controlling Shareholder. For details please refer to Section 1 of Appendix IIA and Appendix IIB to this circular respectively.

LETTER FROM THE BOARD

December 2013. As the Directors understand from the management of the Target Group, the losses recorded in the period and the net current liabilities position were mainly due to the fact that the Target Group was still in its start-up stage of its EMC business which requires significant set-up and investment costs for each new project.

(B) Audited Combined Financial Information of TFRH Investments Group

Set out below is the audited combined financial information of TFRH Investments Group for the years ended 31 December 2011, 2012 and 2013 prepared under Hong Kong Financial Report Standards:

	For the year ended 31 December		
	2011	2012	2013
	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>
Turnover	–	50,522	110,601
Net profit/(loss) before tax	(455)	2,198	(15,892)
Net profit/(loss) after tax	(372)	1,324	(12,628)
Attributable to:			
Equity shareholder of TFRH			
Investments Group	(372)	1,324	(9,458)
Non-controlling interests	–	–	(3,170)
	As at 31 December		
	2011	2012	2013
	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>	<i>(approximately RMB'000)</i>
Current assets	54,549	138,068	241,496
Current liabilities	7,072	98,198	306,081
Net current assets/(liabilities)	47,477	39,870	(64,585)
Total assets	83,600	301,330	541,804
Total liabilities	33,972	250,378	478,008
Total equity	49,628	50,952	63,796
Attributable to:			
Equity shareholder of TFRH			
Investments Group	49,628	50,952	43,997
Non-controlling interests	–	–	19,799

Shareholders are advised to read the above information in conjunction with the accountants' report and other financial information of the TFRH Investments Group as set out in Appendix IIB to this circular.

LETTER FROM THE BOARD

(C) Audited Financial Information of Excel Perfect

Set out below is the audited financial information of Excel Perfect for the year ended 31 December 2013 prepared under Hong Kong Financial Report Standards:

	Period from 28 February 2013 (date of incorporation) to 31 December 2013 <i>HKD'000</i>
Loss before taxation	(3,155)
Loss and total comprehensive income for the period	(3,155)
	As at 31 December 2013 <i>HKD'000</i>
Current assets	173
Total assets	20,835
Net assets	20,835

Of the loss for the period of approximately HK\$3.2 million, approximately HK\$3.1 million is related to the sharing of loss of an associate as a result of Excel Perfect's investment in 25% of equity interest in the Target Company. Of the net assets of approximately HK\$20.8 million, approximately HK\$20.7 million is related to its investment in the 25% of equity interest in the Target Company. Shareholders are advised to read the above information in conjunction with the accountants' report and other financial information of Excel Perfect as set out in Appendix IIC to this circular.

EFFECT OF ACQUISITION ON THE ASSETS AND LIABILITIES OF THE GROUP

Following Completion, members of the Target Group will become indirect wholly-owned subsidiaries of the Company and their results will be consolidated into the financial results of the Company. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix V to this circular (the "Pro-forma Statement").

The audited consolidated total assets and total liabilities of the Group as at 31 December 2013, as extracted from the 2013 annual report of the Company, were approximately US\$211.5 million and US\$115.4 million respectively. As stated in the Pro-forma Statement, upon Completion, the pro-forma total assets and total liabilities of the Enlarged Group would increase to approximately US\$300.4 million and US\$193.8 million respectively.

LETTER FROM THE BOARD

As set out in the section headed “REASONS FOR AND BENEFITS OF THE ACQUISITION — Positive operating prospect” above, the Directors are of the view that the Acquisition is likely to contribute positively in terms of operating revenue to the Enlarged Group. Nevertheless, the actual effect on earnings or losses of the Company will depend on future financial performance of the Target Group.

IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As one of the applicable percentage ratios for the Acquisition under Rule 14.07 of the Listing Rules is more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, one of the Vendors, Resuccess, is a substantial shareholder of the Company and an indirect wholly-owned subsidiary of the Controlling Shareholder, which indirectly owns 75% of the equity interest in the Target Company. Therefore, Resuccess is a connected person of the Company under Rule 14A.11 of the Listing Rules. In addition, Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them of 100% of the equity interest in Team Thrive pursuant to a series of arrangements among Ms. Tso Lap (being the registered holder of the entire equity interest in Team Thrive), the Management Team led by Mr. Fan and other parties. As such, Team Thrive and Valueworth shall be regarded as associates of Mr. Fan and therefore connected persons of the Company under Rule 14A.11 of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders’ approval requirements.

IMPLICATIONS OF THE ACQUISITION UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Controlling Shareholder and the Controlling Shareholder Concert Parties hold 172,000,000 Shares, representing approximately 32.98% of the equity interest in the Company. Upon Completion, 89,706,142 Consideration Shares will be issued to Resuccess, a substantial shareholder of the Company and an indirect wholly-owned subsidiary of the Controlling Shareholder, and 29,902,047 Consideration Shares will be issued to Valueworth, a party acting in concert with the Controlling Shareholder. Upon Completion, the interest in the Company to be held by the Controlling Shareholder and the Controlling Shareholder Concert Parties will increase from approximately 32.98% to approximately 45.48%. Accordingly, the Controlling Shareholder and the Controlling Shareholder Concert Parties, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code, and in the absence of the Singapore Whitewash Waiver or, as the case may be, the Singapore Code Waiver, would be obliged to make a mandatory general offer under Rule 14 of the Singapore Takeovers Code, for all the issued Shares and other equity securities of the Company not already owned or agreed to be acquired by them as a result of the issue and allotment of the Consideration Shares.

LETTER FROM THE BOARD

The Controlling Shareholder has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it would grant the Whitewash Waiver, which would be subject to, among other things, (i) the approval of the Independent Shareholders at the EGM by way of poll and (ii) that the Controlling Shareholder and the Controlling Shareholder Concert Parties will not acquire or dispose of any voting rights in the Company between the date of the Announcement and Completion unless with the prior consent of the Executive.

As the Company is a Singapore-incorporated public company with a primary listing on the Stock Exchange, the Singapore Takeovers Code would apply to the Company. An application was made by the Company to the SIC for the Singapore Code Waiver. On 20 May 2014, the SIC granted the Singapore Code Waiver subject to: (i) the Takeovers Code of Hong Kong continuing to apply to the Company; and (ii) the Company announcing the SIC's grant of the Singapore Code Waiver. The SIC further stated in its letter dated 20 May 2014 that in the event that the Company seeks a listing in Singapore, the Company should consult the SIC on the application of the Singapore Takeovers Code beforehand.

The Controlling Shareholder and the Controlling Shareholder Concert Parties and those who are involved in or interested in the Acquisition and the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Acquisition and the Whitewash Waiver. It is a condition precedent to completion of the Acquisition that the Whitewash Waiver is granted by the Executive.

Save for the entering into of the Sale and Purchase Agreement, the Controlling Shareholder and the Controlling Shareholder Concert Parties confirm that they have not acquired any voting rights in the Company or dealt with any Shares or options to subscribe for Shares or other Relevant Securities in the six-month-period before the announcement of the Company dated 17 April 2014 (being the date of the Sale and Purchase Agreement) and up to and including the Latest Practicable Date.

The Controlling Shareholder has confirmed that, as at the Latest Practicable Date, other than (i) the approximately 32.98% interest in the existing issued share capital of the Company and the options to subscribe for an aggregate of 10,600,000 Shares owned by the Controlling Shareholder and the Controlling Shareholder Concert Parties (the details of which are set out under the section headed "EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" above) and (ii) the Sale and Purchase Agreement and all transactions contemplated thereunder and (iii) as disclosed in this circular:

- (i) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Controlling Shareholder or Controlling Shareholder Concert Parties and any other person;

LETTER FROM THE BOARD

- (ii) there was no agreement or arrangement to which the Controlling Shareholder is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition and/or the Whitewash Waiver;
- (iii) neither the Controlling Shareholder nor any Controlling Shareholder Concert Parties had received an irrevocable commitment or arrangements to vote in favor of or against the resolutions to be proposed at the EGM in respect of the Acquisition and/or the Whitewash Waiver;
- (iv) there were no Shares or options to subscribe for Shares or other Relevant Securities in the Company which the Controlling Shareholder and the Controlling Shareholder Concert Parties have borrowed or lent; and
- (v) neither the Controlling Shareholder nor any Controlling Shareholder Concert Parties held, owned, controlled or directed any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company.

The Executive may or may not grant the Whitewash Waiver. The Whitewash Waiver is a condition precedent to Completion. In the event that the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES

The Company will seek the grant of a specific mandate from the Independent Shareholders at the EGM to issue and allot new Shares to satisfy the issue and allotment of Consideration Shares.

CONTINUING CONNECTED TRANSACTIONS

Upon Completion, members of the Target Group will become indirect wholly-owned subsidiaries of the Company. Therefore, any continuing transactions between the Target Group and the Controlling Shareholder (and its associates other than the Group) following Completion will become continuing connected transactions of the Group under the Listing Rules. There are certain pre-existing continuing transactions between the Target Group and the Controlling Shareholder (and its associates other than the Group).

To regulate the continuing connected transactions between the Target Group and the Controlling Shareholder (and its associates other than the Group), the Group has entered into the following connected transaction agreements with the Controlling Shareholder.

LETTER FROM THE BOARD

Financial assistances provided by the Controlling Shareholder and its associates (other than the Group)

Tongfang Artificial used to provide loans to the Target Company in support of its needs of working capital before the Acquisition. As of 31 December 2013, the total outstanding amount of the loans received by the Target Company from Tongfang Artificial was approximately RMB92.5 million. It is proposed that, following Completion, Tongfang Artificial will no longer provide further loans to the Target Company. The Target Company and Tongfang Artificial entered into a supplemental loan agreement on 17 April 2014, pursuant to which all outstanding amount of loans received by the Target Company from Tongfang Artificial as of the date of Completion shall be repaid in full within one year following the date of Completion. The interest rate shall be the base interest rate promulgated by the People's Bank of China and the interest shall start to accrue on the date immediately following the date of Completion. Such loan agreement shall become effective on the date of Completion.

Further, the Controlling Shareholder has also provided guarantees in respect of certain bank loans of the Target Company. The aggregate guaranteed amount was approximately RMB100.9 million as at 31 December 2013.

The aforementioned financial assistances are provided by the Controlling Shareholder (or its associates other than the Group) for the benefit of the Target Company on normal commercial terms (or better) to the Target Company where no security over the assets of the Enlarged Group is granted in respect of such financial assistances. As such, they are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, Tongfang Artificial is not a shareholder of the Company.

The Procurement Agreement

The Target Group used to purchase heat pumps, cooling systems and other related products from Tongfang Kawasaki before the Acquisition. It will continue to purchase such equipment and products, including heat pumps, cooling systems and other products, equipment and systems and services relating to the Group's business, from the Controlling Shareholder (and its associates other than the Group) including Tongfang Kawasaki. To regulate the aforementioned continuing connected transactions between the Target Group and the Controlling Shareholder (and its associates other than the Group), the Target Company and the Controlling Shareholder entered into the Procurement Agreement on 21 April 2014.

To the best of the Directors' knowledge, apart from the Controlling Shareholder and Resuccess, there are no other associates of the Controlling Shareholder who are shareholders of the Company.

LETTER FROM THE BOARD

The principal terms of the Procurement Agreement are set out below:

- Date:** 21 April 2014
- Parties:** The Target Company; and
the Controlling Shareholder
- Term:** Three years from 1 January 2014 to 31 December 2016.
- Products to be procured:** The Controlling Shareholder (and its associates other than the Group) agree to sell, and the Target Company and other members of the Group agree to purchase heat pumps, cooling systems and other products, equipment and systems and services relating to the Group's business of energy management, environmental protection and energy saving.
- Consideration and Payment:** The price of such products supplied by the Controlling Shareholder (and its associates other than the Group) to the Group will be determined based on normal and commercial terms after arm's length negotiations, with reference to the prevailing market price of similar products at the time of a particular transaction, and in any event no less favourable to the Group than those offered by independent third party suppliers to the Group.

As an active market participant, the Group will, through market research and interactions with other market participants, obtain sufficient market intelligence to enable them to ascertain the prevailing market rate, payment terms and practices as well as the latest market and independent third party supplier information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions and cities in the PRC.

LETTER FROM THE BOARD

The market rate of the products is to be ascertained based on the prevailing market price of the products determined based on:

- (a) the price of similar products used in projects of similar scale and nature offered by independent third party suppliers and accepted by the Group (the “**Comparable Purchase Transactions**”) during a period of 12 months prior to the relevant transaction with the Controlling Shareholder and its associates (other than the Group) (the “**12-Month Purchase Period**”) (if any⁺), including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the price of similar products used in similar scale and nature of products offered by independent third party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers, if any, and taking into account the latest market and independent third party supplier information obtained, through market research and interactions with other market participants, by the Group at the time of the relevant transaction with the Controlling Shareholder (and its associates other than the Group).

The detailed payment terms for purchase of the products will be set out in separate purchase contracts which shall be on normal commercial terms and in compliance with the principles set out in the Procurement Agreement.

LETTER FROM THE BOARD

When determining the payment terms, the Group will make reference to prevailing market practices determined based on:

- (a) the terms of projects of similar scale and nature offered by independent third party suppliers and accepted by the Group during the 12-Month Purchase Period prior to the relevant transaction with the Controlling Shareholder (and its associates other than the Group) (if any⁺), including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the terms of similar products used in similar scale and nature of products offered by independent third party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period, including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers, if any, and taking into account the latest market and independent third party supplier information obtained, through market research and interactions with other market participants, by the Group at the time of the relevant transaction with the Controlling Shareholder (and its associates other than the Group).

In any event, the payment terms should be no less favorable to the Group than those offered by independent third party suppliers to the Group.

Effectiveness:

The Procurement Agreement will become effective on the date of Completion, provided that the Company has obtained all approvals and resolutions as required under the Listing Rules.

⁺ The Group will seek to obtain sufficient market intelligence which enable them to ascertain the prevailing market rate, payment terms and practices. As of the Latest Practicable Date, there were no such projects.

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed Annual Caps and the basis of determination of the proposed Annual Caps are set out below:

	Caps for the year ending		
	31 December		
	2014	2015	2016
	RMB	RMB	RMB
Proposed Annual Caps for 2014 to 2016	150 million	185 million	230 million

The proposed Annual Caps were determined based on (a) the Target Group's historical transaction amounts of purchases from the Controlling Shareholder (and its associates other than the Group) of RMB88.1 million and RMB68.0 million during the two financial years ended 31 December 2013 respectively; and (b) the Target Group's forecasted purchase amounts in heat pumps for the three years ending 31 December 2016. The growth rates were determined after considering the growth trend of the energy management business, taking into account the increasing amount of raw materials used for the EMC and EPC projects under the contracts and letters of intent signed and favorable policies introduced in the energy management industry by the PRC government (details of which are set out in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION — Positive industry outlook and government support").

The Directors (including members of the Connected Transactions IBC) consider that the Procurement Agreement (together with the proposed Annual Caps) was entered into on normal commercial terms, in the ordinary and usual course of business of the Group, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons and benefits for the Procurement Agreement

Tongfang Kawasaki has been providing equipment such as heat pumps and cooling systems to the Target Group before the Acquisition. The Controlling Shareholder and its associates (other than the Group), including Tongfang Kawasaki, have been important suppliers and have also proven to be reliable suppliers to the Group at competitive prices which is important to the operations and business of the Group. The Group has benefited from working with the Controlling Shareholder (and its associates other than the Group). Given the mutual beneficial relationship between the Group and the Controlling Shareholder (and its associates other than the Group) and that the Target Group has historically purchased from the Controlling Shareholder (and its associates other than the Group) products, equipment and services in its ordinary and usual course of business, the Company considers that the Procurement Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Implication of the Procurement Agreement under the Listing Rules

The Controlling Shareholder is a connected person of the Company under the Listing Rules and thus the aforementioned transactions between the Controlling Shareholder (and its associates other than the Group) and the Target Company upon Completion will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios for the proposed Annual Caps in respect of the Procurement Agreement for the years ending 31 December 2014, 2015 and 2016 exceed 5% on an annual basis, the transactions contemplated under the Procurement Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION ON THE VENDORS AND THE CONTROLLING SHAREHOLDER

The Vendors

Resuccess is a company incorporated in the BVI and its principal business is investment holding. It is indirectly wholly-owned by the Controlling Shareholder.

Valuworth is a company incorporated in the BVI and its principal business is investment holding. It is owned as to 12%, 80% and 8% of its equity interest by Fortune Continent, Team Thrive and OP Financial. Fortune Continent is wholly-owned by Ms. Tso Lap. To the best of the Directors' knowledge, Ms. Tso Lap, Fortune Continent and OP Financial are third parties independent of and not connected with the Company or any of its connected persons. Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them of 100% of the equity interest in Team Thrive pursuant to a series of arrangements among Ms. Tso Lap (being the registered holder of the entire equity interest in Team Thrive), the Management Team led by Mr. Fan and other parties. As such, Team Thrive and Valuworth shall be regarded as associates of Mr. Fan and therefore connected persons of the Company under Chapter 14A of the Listing Rules.

Valuworth through Excel Perfect acquired the 25% of equity interest in the Target Company (by way of capital injection by Excel Perfect into the Target Company) in April 2013 for approximately HK\$23.8 million.

The Directors are aware of the considerable premium between the original costs of the acquisition by Valuworth through Excel Perfect of 25% of equity interest in the Target Company and the consideration to be received by Valuworth in the Acquisition. The Directors are of the view that the original acquisition cost is irrelevant to the determination of the Consideration which was the result of the arm's length negotiations among the Purchaser and the Vendors. Taking into account the valuation of the Target

LETTER FROM THE BOARD

Company set out in the Valuation Report, the Directors are of the view that the Consideration is fair and reasonable.**

The Controlling Shareholder

The Controlling Shareholder, a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所), is engaged in supplying different products and services for a wide range of industries including but not limited to, the information media, energy and environment industries.

INFORMATION ABOUT THE GROUP

The Company is incorporated in Singapore with limited liability and its Shares are listed on the main board of the Stock Exchange. As at the Latest Practicable Date, the Group is principally engaged in the design, manufacturing and distribution of EMS and provision of solutions services.

FUTURE INTENTIONS OF THE CONTROLLING SHAREHOLDER REGARDING THE GROUP

It is the intention of the Controlling Shareholder that the Group will continue its current business and its employment of the employees of the Group. The Controlling Shareholder has no intention to make any major changes to the business or employment of employees of the Group or to redeploy the fixed assets of the Group.

NO FUND RAISING ACTIVITIES FOR THE PAST 12 MONTHS

The Company did not conduct any equity fund raising activities in the past 12 months immediately before the Latest Practicable Date.

INDEPENDENT BOARD COMMITTEES AND QUAM CAPITAL

The Connected Transactions IBC has been established in compliance with the Listing Rules, to consider the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including issue and allotment of Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed

** The Company was not privy to the transaction where Valuerworth through Excel Perfect acquired 25% of equity interest in the Target Company (by way of capital injection by Excel Perfect into the Target Company) in April 2013 for approximately HK\$23.8 million (the "Initial Investment"), and therefore, the Company is not in a position to account for the premium between the Initial Investment and the Consideration. However, the Directors note that the business of the Target Company at the time of the Initial Investment mainly involved EPC projects (rather than EMC projects), as compared to the current business portfolio of the Target Company involving both EPC and EMC projects, whereas EPC projects are of a relatively lower profit margin as the contract value in aggregate and the expected revenue derived from the contracts/letters of intent of EPC projects are lower. Additionally, the Directors note that the Initial Investment was an acquisition of a minority interest in the Target Company, as opposed to the Acquisition in respect of the entire equity interest in the Target Company pursuant to the Sale and Purchase Agreement. As such, the potential value of the Target Company might not have been fully realized at the time of the Initial Investment.

LETTER FROM THE BOARD

Annual Caps) and advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the Acquisition) and the Procurement Agreement (and the proposed Annual Caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolutions to be proposed at the EGM for approving the Sale and Purchase Agreement and all transactions contemplated thereunder (including issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps), after taking into account the recommendation of Quam Capital. In this connection, Quam Capital has been appointed to advise the Connected Transactions IBC and the Independent Shareholders in the same regard, and such appointment has been approved by the Connected Transactions IBC.

The Whitewash Waiver IBC has been established in compliance with Rule 2.8 of the Takeovers Code, to consider the terms of the Whitewash Waiver, and advise the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution to be proposed at the EGM for approving the Whitewash Waiver, after taking into account the recommendation of Quam Capital. In this connection, Quam Capital has been appointed to advise the Whitewash Waiver IBC and the Independent Shareholders in the same regard, and such appointment has been approved by the Whitewash Waiver IBC.

The letter of advice from Quam Capital to the Connected Transactions IBC, the Whitewash Waiver IBC, and the Independent Shareholders in respect of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) and the Whitewash Waiver is set out on pages 43 to 83 of this circular. Shareholders are advised to read the letter carefully.

EGM

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, the Acquisition, the Specific Mandate, the Whitewash Waiver and the Procurement Agreement (and the proposed Annual Caps).

The Controlling Shareholder, its associates and other Shareholders who have a material interest in the Acquisition, the Specific Mandate and the Procurement Agreement will abstain from voting on the resolution(s) to approve the Acquisition, the Specific Mandate and the Procurement Agreement (and the proposed Annual Caps) at the EGM.

The Controlling Shareholder, the Controlling Shareholder Concert Parties and those Shareholders who are involved in or interested in the Acquisition and the Whitewash Waiver, will abstain from voting on the resolution to approve the Whitewash Waiver at the EGM.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, after having made reasonable enquiries, the Directors take the view that save for the Controlling Shareholder and Resuccess (which held approximately 17.64% and 15.34% interest in the Company as at the Latest Practicable Date respectively) and their respective associates, no other Shareholders are required to abstain from voting at the EGM in respect of the resolutions to approve the Acquisition, the Specific Mandate, the Procurement Agreement (and the proposed Annual Caps) and the Whitewash Waiver.

As Completion is subject to the satisfaction (or waiver, where applicable) of the conditions precedent under the Sale and Purchase Agreement, the Acquisition may or may not be completed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

RECOMMENDATIONS

The Directors, including members of the Independent Board Committees who have taken into account the advice of Quam Capital, consider that the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate), the Procurement Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the Procurement Agreement was entered into in the ordinary and usual course of business, and recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Save for Mr. Fan who, together with the Management Team, has the right to request the transfer to them of 100% of the equity interest in Team Thrive (see "Parties" under the section headed "THE ACQUISITION"), none of the Directors has a material interest in the Acquisition, the Specific Mandate and the Procurement Agreement and has abstained from voting on the relevant Board resolutions for approving the Acquisition, the Specific Mandate and the Procurement Agreement.

You are advised to read carefully the letters from the Independent Board Committees on pages 40 to 42 of this circular. The Independent Board Committees, having taken into account the advice of Quam Capital, the text of which is set out on pages 43 to 83 of this circular, consider that the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate), the Procurement Agreement and/or the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committees recommend the Independent Shareholders to vote in favour of the aforesaid resolutions.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
Technovator International Limited
Lu Zhicheng
Chairman

* *For identification purpose only*

LETTER FROM THE CONNECTED TRANSACTIONS IBC

The following is the full text of a letter from the Connected Transactions IBC setting out its recommendations to the Independent Shareholders in relation to the Acquisition, the Specific Mandate and the Procurement Agreement (and the proposed Annual Caps).



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Company Registration No: 200507127G)

(Stock Code: 1206)

24 June 2014

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 24 June 2014 issued by the Company to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Connected Transactions IBC to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and all transactions contemplated under the Sale and Purchase Agreement (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) (the “**Relevant Transactions**”).

Quam Capital Limited has been appointed as the independent financial adviser to advise in writing the Connected Transactions IBC and the Independent Shareholders on the fairness and reasonableness of the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps). We wish to draw your attention to the letter of advice from Quam Capital as set out on pages 43 to 83 of the Circular.

As the Company’s independent non-executive Directors, we have discussed with the management of the Company the reasons for and benefits of the Acquisition and the Procurement Agreement, and the basis upon which their terms have been determined. We have considered the factors and reasons considered by, and the opinions and recommendations of, Quam Capital as set out on pages 43 to 83 of the Circular.

LETTER FROM THE CONNECTED TRANSACTIONS IBC

On the basis of the above, we are of the opinion that the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the Procurement Agreement was entered into in the ordinary and usual course of business. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Relevant Transactions.

Yours faithfully,

The Connected Transactions IBC

Mr. Fan Ren Da Anthony

Mr. Chia Yew Boon

Ms. Chen Hua

Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM THE WHITEWASH WAIVER IBC

The following is the full text of a letter from the Whitewash Waiver IBC setting out its recommendations to the Independent Shareholders in relation to the Whitewash Waiver.



TECHNOVATOR INTERNATIONAL LIMITED 同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Company Registration No: 200507127G)

(Stock Code: 1206)

24 June 2014

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 24 June 2014 issued by the Company to its Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Whitewash Waiver IBC to advise the Independent Shareholders in respect of the Whitewash Waiver.

Quam Capital Limited has been appointed as the independent financial adviser to advise in writing the Whitewash Waiver IBC and the Independent Shareholders on the fairness and reasonableness of the Whitewash Waiver. We wish to draw your attention to the letter of advice from Quam Capital as set out on pages 43 to 83 of the Circular.

As the Company’s non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Acquisition and/or the Whitewash Waiver, we have discussed with the management of the Company the reasons for and benefits of the Whitewash Waiver. We have considered the factors and reasons considered by, and the opinions and recommendations of, Quam Capital as set out on pages 43 to 83 of the Circular.

On the basis of the above, we are of the opinion that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Whitewash Waiver.

Yours faithfully,

The Whitewash Waiver IBC

Mr. Fan Ren Da Anthony

Independent

Non-executive Director

Mr. Chia Yew Boon

Independent

Non-executive Director

Ms. Chen Hua

Independent

Non-executive Director

Mr. Liu Tianmin

Non-executive Director

Mr. Ng Koon Siong

Non-executive Director

* *For identification purpose only*

LETTER FROM QUAM CAPITAL

The following is the full text of a letter of advice from Quam Capital Limited, the independent financial adviser to the Connected Transactions IBC and the Independent Shareholders in connection with the Sales and Purchase Agreement, the Procurement Agreement and the transactions contemplated thereunder, and the Whitewash Waiver IBC and the Independent Shareholders in connection with the application for Whitewash Waiver, which has been prepared for the purpose of incorporation into this circular.



Quam Capital Limited

A Member of The Quam Group

*To the Connected Transactions IBC, Whitewash Waiver IBC
and the Independent Shareholders*

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

24 June 2014

Dear Sirs,

- (1) MAJOR AND CONNECTED TRANSACTION;
(2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Connected Transactions IBC and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) and the independent financial adviser to the Whitewash Waiver IBC and the Independent Shareholders in connection with the application for Whitewash Waiver, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 24 June 2014 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

LETTER FROM QUAM CAPITAL

THE ACQUISITION

On 17 April 2014, the Company has entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares, representing 100% equity interest in TFRH Investments and 100% equity interest in Excel Perfect, which in turn own 75% equity interest and 25% equity interest in the Target Company respectively. The Consideration is RMB380 million (equivalent to approximately HK\$478.4 million), which will be satisfied by the issue and allotment of the Consideration Shares to the Vendors, subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement. The Target Company shall become an indirect wholly-owned subsidiary of the Company upon Completion.

As at the Latest Practicable Date, Resuccess, being one of the Vendors and an indirect wholly owned subsidiary of the Controlling Shareholder, indirectly owns 75% equity interest in the Target Company and is beneficially interested in 80,000,000 Shares, representing approximately 15.34% of the entire issue share capital of the Company. The Controlling Shareholder, directly and indirectly through Resuccess, held approximately 32.98% of equity interest in the Company. The Controlling Shareholder and Resuccess are therefore connected persons of the Company under Chapter 14A of the Listing Rules. In addition, Valueworth, being one of the Vendors, is 80% owned by Team Thrive as at the Latest Practicable Date. Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them 100% equity interest in Team Thrive pursuant to a series of arrangements among Ms. Tso Lap (the registered holder of the entire equity interest in Team Thrive, the Management Team led by Mr. Fan and other parties). As such, Team Thrive and Valueworth shall be regarded as associates of Mr. Fan and therefore connected persons of the Company under Rule 14A.11 of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval at the EGM.

THE PROCUREMENT AGREEMENT

On 21 April 2014, the Target Company and the Controlling Shareholder entered into the Procurement Agreement, pursuant to which the Controlling Shareholder and its associates (other than the Group) agreed to sell, and the Target Company and other members of the Group agreed to purchase, heat pumps, cooling systems and other products, equipment and systems and services relating to the Group's business of energy management, environmental protection and energy-saving subject to the proposed Annual Caps for the years ending 31 December 2014, 2015 and 2016. As the Controlling Shareholder, directly and indirectly through Resuccess, held approximately 32.98% of the equity interest in the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios for the proposed Annual Caps for the years ending 31 December 2014, 2015 and 2016 exceed 5% on an annual basis, the transactions contemplated under the Procurement Agreement upon Completion are subject to the reporting, announcement and Independent Shareholders' approval at the EGM.

LETTER FROM QUAM CAPITAL

The Connected Transactions IBC, comprising all the independent non-executive Directors, namely Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, has been established to make recommendation to the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue and allotment of the Consideration Shares under the Specific Mandate) and the Procurement Agreement (and the proposed Annual Caps) are on normal commercial terms, fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole, and as to their voting at the EGM. The Connected Transactions IBC has approved the appointment of Quam Capital Limited as the independent financial adviser to advise them and the Independent Shareholders in this regard.

WHITEWASH WAIVER

As at the Latest Practicable Date, the Controlling Shareholder and the Controlling Shareholder Concert Parties held 172,000,000 Shares, representing approximately 32.98% of equity interest in the Company. Upon Completion, 89,706,142 Consideration Shares will be issued to Resuccess, being a substantial Shareholder and an indirect wholly-owned subsidiary of the Controlling Shareholder, and 29,902,047 Consideration Shares will be issued to Valuworth, a party acting in concert with the Controlling Shareholder under the Takeovers Code. Upon Completion, the interest in the Company to be held by the Controlling Shareholder and the Controlling Shareholder Concert Parties will increase from approximately 32.98% to approximately 45.48%. Accordingly, the Controlling Shareholder and the Controlling Shareholder Concert Parties, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the issued Shares and other equity securities of the Company not already owned or agreed to be acquired by them as a result of the issue and allotment of the Consideration Shares. Completion is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. An application to the Executive for the Whitewash Waiver has been made by the Controlling Shareholder pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it would grant the Whitewash Waiver, subject to, among other things, (i) the approval of the Independent Shareholders on a vote taken by way of a poll at the EGM; and (ii) that the Controlling Shareholder and the Controlling Shareholder Concert Parties will not acquire or dispose of any voting rights in the Company between the date of the Announcement and Completion unless with the prior consent of the Executive. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Sale and Purchase Agreement will lapse and the acquisition will not proceed.

The Whitewash Waiver IBC, comprising all the non-executive Directors and independent non-executive Directors (other than Mr. Lu and Mr. Fan who are interested in the Acquisition and/or the Whitewash Waiver), namely Mr. Liu Tianmin, Mr. Ng Koon Siong, Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua, has been established in compliance with Rule 2.8 of the Takeovers Code, to advise the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and their voting at the EGM. The Whitewash Waiver IBC has approved the appointment of Quam Capital Limited as the independent financial adviser to advise them and the Independent Shareholders in this regard.

LETTER FROM QUAM CAPITAL

None of our group or any of our relevant employees holds, directly or indirectly, any Shares, options, warrants or other equity related interests in the Company, the Vendors and the Target Company and any party acting, or presumed to be acting, in concert with any of them or company controlled by any of them. Apart from normal professional fees payable to us in connection with this arrangement, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendors and the Target Company and any party acting, or presumed to be acting, in concert with any of them or company controlled by any of them. Accordingly, we consider ourselves are qualified to give an independent advice in respect of the Sale and Purchase Agreement, the Procurement Agreement, the transactions contemplated thereunder and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group and the Target Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the management of the Group, the Target Group, the Directors and the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Group, the Sale and Purchase Agreement, the Procurement Agreement and the transactions contemplated thereunder and the Whitewash Waiver provided to us by the Company and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and up to the Latest Practicable Date. Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to the above.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Target Company or any of their subsidiaries and associates. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company. In rendering this opinion, we have not provided legal, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.

LETTER FROM QUAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the terms of the Sale and Purchase Agreement, the Procurement Agreement, and all transactions contemplated thereunder and application for the Whitewash Waiver, we have taken into consideration of the following factors and reasons:

1. Background and financial information of the Group

As at the Latest Practicable Date, the Group is principally engaged in the design, manufacturing and distribution of Energy Management Systems (“EMS”) and provision of solutions services.

Set out below are the summarised consolidated financial statements of the Group for the three years ended 31 December 2013 as extracted from the annual reports of the Company for the years ended 31 December 2013 (the “2013 Annual Report”), 31 December 2012 (the “2012 Annual Report”) and 31 December 2011 (the “2011 Annual Report”). Your attention is also drawn to the “Financial information of the Group” set out in Appendix I to the Circular.

	For the year ended 31 December		
	2013	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(audited)	(audited)	(audited)
Revenue	148,713	124,209	97,513
Building energy-saving solutions:			
Building automation systems	106,820	94,041	77,519
Energy management systems	21,852	13,025	7,633
Others:			
Control security systems	19,316	16,771	12,090
Fire alarm systems	725	372	271
Gross profit	55,037	44,505	36,395
Net profit attributable to the Shareholders	17,105	13,392	10,445
	As at 31	As at 31	As at 31
	December	December	December
	2013	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(audited)	(audited)	(audited)
Total assets	211,536	147,545	108,148
Cash and cash equivalents	53,553	40,505	27,940
Total liabilities	115,360	63,041	37,420
Total equity attributable to the Shareholders	94,619	77,902	65,013
Gearing ratio (<i>Note</i>)	22.1%	19.2%	10.7%

Note: The gearing ratio was measured on the basis of the total loans and borrowings over total equity attributable to the Shareholders.

LETTER FROM QUAM CAPITAL

For the year ended 31 December 2011

Based on the 2011 Annual Report, the Group posted revenue of US\$97.5 million for the year ended 31 December 2011, representing an increase of 31.6% from US\$74.1 million in 2010. Gross profit reached US\$36.4 million in 2011, representing an increase of 44.4% over the same period in 2010, while net profit attributable to the Shareholders reached US\$10.4 million in 2011, representing an increase of 48.2% over the same period in 2010.

As set out in the 2011 Annual Report, revenue from the Group's building automation systems was up by 29.2% to US\$77.5 million in 2011, driven by (i) the continuing growth of property development/renovation and building construction/renovation in the PRC; (ii) increasing global awareness of energy efficiency products for buildings; (iii) the increasing recognition of brands and product's quality of the Company; and (iv) strengthen sales and marketing strategies in overseas market in order to focus more on mega-size contracts, develop and commercialise the energy-saving solution for customers with significant number of branches.

As set out in the 2011 Annual Report, revenue from the Group's energy management systems was up by 35.9% to US\$7.6 million in 2011, driven by (i) the increasing awareness of building energy-saving solution; (ii) the Group's continuing investment in research and development to enhance the competitiveness of its energy management system; and (iii) the increasing recognition of brands and product's quality of the Company.

As set out in the 2011 Annual Report, control security systems and fire alarm systems are two non-core business segments of the Group which in aggregate represented 12.7% of the Group's revenue for the year ended 31 December 2011. Revenue from control security systems was up by 52.4% to US\$12.1 million in 2011 due to the progress of certain control security systems contracts entered in 2010 were deferred and the respective revenue was recognized in 2011, while the revenue from fire alarm systems was decreased by 50.3% to US\$0.3 million in 2011, compare to the same period in 2010, which was considered an insignificant amount compare to the total revenue of the Group.

According to the 2011 Annual report, as at 31 December 2011, the Group had total assets of US\$108.1 million (31 December 2010: US\$82.8 million) and total equity attributable to the Shareholders of US\$65.0 million (31 December 2010: US\$43.9 million). As of 31 December 2011, the cash balance of the Group was US\$27.9 million (31 December 2010: US\$15.2 million) and the Group's indebtedness consisted of short-term loan of US\$3.6 million with an average annual interest rate of 5.1%, long-term loan of US\$3.4 million with an average annual interest rate of 4.4% and obligations under finance lease of US\$87,000. The short-term loan mainly represented an unsecured term loan of US\$1.2 million from Bank of China, a secured term loan of US\$1.3 million and secured bank overdraft of US\$0.3 million from banks in the overseas.

LETTER FROM QUAM CAPITAL

According to the 2011 Annual report, as at 31 December 2011, the Group had total equity attributable to owners of the Company of US\$65.0 million (31 December 2010: US\$43.9 million). Accordingly, the gearing ratio, which was measure on the basis of the interest-bearing borrowings of the Group over total equity attributable to owners of the Company, was 10.7% as at 31 December 2011 (31 December 2010: 22.1%).

For the year ended 31 December 2012

Based on the 2012 Annual Report, the Group posted revenue of US\$124.2 million for the year ended 31 December 2012, representing an increase of 27.4% from US\$97.5 million in 2011. Gross profit reached US\$44.5 million in 2012, representing an increase of 22.3% over the same period in 2011, while net profit attributable to the Shareholders reached US\$13.4 million in 2012, representing an increase of 28.2% over the same period in 2011.

As set out in the 2012 Annual Report, revenue from the Group's building energy-saving solutions segment, including building automation systems and energy management systems, was up by 25.7% to US\$107.1 million in 2012, 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.

As set out in the 2012 Annual Report, control security systems and fire alarm systems are two non-core business segments of the Group which in aggregate represented 13.8% of the Group's revenue for the year ended 31 December 2012. Revenue from control security systems was up by 38.7% to US\$16.8 million in 2012 while the revenue from fire alarm systems was increased by 37.3% to US\$0.4 million in 2012, compare to the same period in 2011, which was considered an insignificant amount compare to the total revenue of the Group.

According to the 2012 Annual report, as at 31 December 2012, the Group had total assets of US\$147.5 million (31 December 2011: US\$108.1 million) and total equity attributable to the Shareholders of US\$77.9 million (31 December 2011: US\$65.0 million). As of 31 December 2012, the cash balance of the Group was US\$40.5 million (31 December 2011: US\$27.9 million) and the Group's indebtedness consisted of short-term loan of US\$7.9 million with an average annual interest rate of 5.8%, long-term loan of US\$7.1 million with an average annual interest rate of 4.8% and obligations under finance lease of US\$183,000. The short-term loan mainly represented an unsecured term loan of approximately US\$3.2 million from China Citic Bank, an unsecured term loan of approximately US\$1.6 million from China Merchants Bank, a term loan of approximately US\$3.0 million and secured bank overdraft of approximately

LETTER FROM QUAM CAPITAL

US\$0.08 million from The Hongkong and Shanghai Banking Corporation Limited and other financial institutions.

According to the 2012 Annual report, as at 31 December 2012, the Group had total equity attributable to owners of the Company of US\$77.9 million (31 December 2011: US\$65.0 million). Accordingly, the gearing ratio, which was measure on the basis of the interest-bearing borrowings of the Group over total equity attributable to owners of the Company, was 19.2% as at 31 December 2012 (31 December 2011: 10.7%).

For the year ended 31 December 2013

Based on the 2013 Annual Report, the Group posted revenue of US\$148.7 million for the year ended 31 December 2013, representing an increase of 19.7% from US\$124.2 million in 2012. Gross profit reached US\$55.0 million in 2013, representing an increase of 23.7% over the same period in 2012, while net profit attributable to the Shareholders reached US\$17.1 million in 2013, representing an increase of 27.7% over the same period in 2012.

As set out in the 2013 Annual Report, revenue from the Group's building energy-saving solutions segment, including building automation systems and energy management systems, was up by 20.2% to US\$128.7 million in 2012, driven by (i) rolling out of domestic encouraging polices and increasing awareness of energy-efficient products globally; and (ii) the Group's brand recognition and experience in international projects riding on the Group's efforts to accelerate the research and development of new technology as well as strengthening sales and marketing strategies.

As set out in the 2013 Annual Report, control security systems and fire alarm systems are two non-core business segments of the Group which in aggregate represented 13.5% of the Group's revenue for the year ended 31 December 2013. Revenue from control security systems was up by 15.2% to US\$19.3 million in 2013, while the revenue from fire alarm systems was increased by 94.9% to US\$0.7 million in 2013, compare to the same period in 2012, which was considered an insignificant amount compare to the total revenue of the Group.

According to the 2013 Annual report, as at 31 December 2013, the Group had total assets of US\$211.5 million (31 December 2012: US\$147.5 million) and total equity attributable to the Shareholders of US\$94.6 million (31 December 2012: US\$77.9 million). As of 31 December 2013, the cash balance of the Group was US\$53.5 million (31 December 2012: US\$40.5 million) and the Group's indebtedness consisted of short-term loan of US\$15.2 million with an average annual interest rate of 5.83%, long-term loan of US\$5.7 million with an average annual interest rate of 3.84% and obligations under finance lease of US\$0.14 million. The short-term loan mainly represented an unsecured loan of approximately US\$4.1 million from Bank of China, an unsecured loan of approximately US\$3.3 million from China Merchants Bank, an unsecured loan

LETTER FROM QUAM CAPITAL

of approximately US\$3.3 million from Bank of Huaxia, an unsecured loan of approximately US\$1.6 million from Bank of Beijing, an unsecured loan of approximately US\$1.6 million from Bank of Communications, a term loan of approximately US\$1.2 million and secured bank overdraft of approximately US\$0.07 million from The Hongkong and Shanghai Banking Corporation Limited and other financial institutions. The increase in the Group's indebtedness in 2013 was mainly due to business expansion.

According to the 2013 Annual report, as at 31 December 2013, the Group had total equity attributable to owners of the Company of US\$94.6 million (31 December 2012: US\$77.9 million). Accordingly, the gearing ratio, which was measure on the basis of the interest-bearing borrowings of the Group over total equity attributable to owners of the Company, was 22.1% as at 31 December 2013 (31 December 2012: 19.2%).

Subsequent development since 31 December 2013

According to the unaudited management accounts of the Company, as at 31 March 2014, the cash balance of the Group decreased to US\$36.2 million from US\$53.5 million as at 31 December 2013. As advised by the management of the Group, such decrease in cash was due to seasonality of the business cycle of the Group and was consistent to previous years.

On 30 April 2013, the Company announced the major and connected transaction relating to, among other things, the Acquisition at a consideration of RMB380 million (equivalent to approximately HK\$478.4 million) by way of the issue and allotment of the Consideration Shares to the Vendors, details of which are set out in the Letter from the Board.

2. Background on the Controlling Shareholder

The Controlling Shareholder, a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所), is engaged in supplying different products and services for a wide range of industries including but not limited to, the information media, energy and environment industries. The Controlling Shareholder and its associates also offers a wide range of products among its other divisions such as heat pumps, cooling systems, and other products, equipment and systems and services relating to energy management, environmental protection and energy saving.

3. Background and financial information on the Target Group

Background information about the Target Group

The Target Company is a wholly foreign-owned enterprise with limited liability which was established in the PRC in 2002. As at the Latest Practicable Date, the Target Company is owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect respectively. Together with its

LETTER FROM QUAM CAPITAL

subsidiaries, the Target Company is principally engaged in design, manufacturing and distribution in industrial and architectural heating and cooling energy-saving solution market with the dual business models of Energy Management Contract (“EMC”), Engineering, Procurement & Construction (“EPC”) and build-operate-transfer contract in the PRC.

TFRH Investments is a company established in the Cayman Islands with limited liability and its principal business is investment holding. It is wholly owned by Resuccess, a company incorporated in the BVI on 30 March 2004 and its principal business is investment holding. Resuccess is an indirect wholly-owned subsidiary of Tsinghua Tongfang Holdings Co., Ltd, the Controlling Shareholder.

Excel Perfect is a company established in Hong Kong with limited liability and its principal business is investment holding. It is wholly owned by Valuworth, a company incorporated in the BVI and its principal business is investment holding. Valuworth through Excel Perfect obtained 25% equity interest in the Target Company through a capital injection of approximately RMB18.9 million (equivalent to approximately HK\$23.8 million) in 2013. Valuworth is owned as to 12%, 80% and 8% of its equity interest by Fortune Continent, Team Thrive and OP Financial respectively. Fortune Continent is wholly-owned by Ms. Tso Lap. To the best of Directors’ knowledge, information and belief having made all reasonable enquiries, Ms. Tso Lap, Fortune Continent and OP Financial are third parties independent of and not connected with the Company or any of its connected persons. Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them 100% equity interest in Team Thrive pursuant to a series of arrangements among Ms. Tso Lap (the registered holder of the entire equity interest in Team Thrive, the Management Team led by Mr. Fan and other parties).

Business of the Target Group

The Target Company is currently engaged in design, manufacturing and distribution in industrial and architectural heating and cooling energy-saving solution market with the dual business models of EMC and EPC in the PRC. In particular, the operations of the Target Company and its major customers are mainly located in Heilongjiang Province, Hebei Province, Shandong Province, Liaoning Province, Shanxi Province and Guangdong Province in the PRC. As advised by the management of the Target Company, the Target Company was originally a traditional air-conditioning energy-saving engineering company but transformed into an energy investment and energy management company subsequent to the business models of EMC and EPC in July 2009. It provides one-stop, whole-process and diversified comprehensive services of energy-saving and emission reduction for energy-consumption clients in industrial production and architectural environment. In terms of techniques in particular, the Target Company primarily promotes the technology of absorption heat pump system in the heating field, the dehumidifying blast technology on blast furnace (高爐鼓風脫濕技術) and temperature and humidity separate control system for double-cold-source (雙冷源溫濕分控系統) in the cooling field.

LETTER FROM QUAM CAPITAL

As mentioned above, the Target Company is principally engaged in EMC and EPC projects. The main difference between EPC and EMC lies in their respective phases of revenue contribution of the project in which revenue under EPC is generated from the construction services whereas revenue under EMC is generated from the amount of energy being saved or reduced during the course of the operation of business activities by the customers following the completion of the construction work of project infrastructure.

As advised by the Target Company, EMC is a market-based energy saving mechanism whereby the Target Company entered into energy-saving service contracts with clients wishing to undergo energy saving reconstruction in attempt to provide the clients with one-stop comprehensive services ranging from energy efficiency audit, energy-saving project design, procurement of raw materials and equipments, construction, training, operational maintenance, and energy-saving monitoring. As an EMC service provider, the Target Company bears full responsibility for all risks of energy-saving projects, in respect of capital and know-how technologies. EMC is a capital intensive model, whereby the Target Company bears the entire project construction costs before recording revenue after completion of the project construction and achieving sustainable returns at later stage of implementation of the contracts through sharing the energy-saving benefits achieved throughout contract period based on a pre-determined sharing ratio and rates of the energy, including but not limited to coal, electricity, water or steam, being saved. During the whole operating procedure of the EMC mechanism, the Target Company owns the advanced technology and products, sound management technology and experience as well as well-established financing channels of energy-saving projects, which achieves the optimal combination of productivity factors so as to create new productivity growth and maximize economic and social benefits with the optimal input. Energy-saving equipments utilized during contract period would be transferred to the customers, who would fully benefit all the energy savings afterwards, at no additional cost upon the lapse of the duration of the EMC contract.

On the other hand, under the business model of EPC, the Target Company is entrusted by property owners to contract the entire process or several phases of the surveying, designing, procurement, construction and trial operation (completion and acceptance) of the energy saving related projects as agreed in the contracts. The Target Company takes full responsibilities as to the quality, safety, construction period, and cost of the projects constructed. As EPC model is an important project operating model in the field of energy-saving engineering in the PRC, with the feature of both energy-saving service company and energy-consumption enterprises are familiar with it, which often adopts bidding for large scale projects featuring by fierce competition, its profit is relatively lower than that of EMC model. Additionally, problems easily occur among the main phases such as design, procurement and construction, which make it hard to achieve the optimization of the energy-saving efficiency of the project or minimization of the investment.

LETTER FROM QUAM CAPITAL

Financial information of the Target Group

Set out below are the audited consolidated financial information of the Target Group for the three years ended 31 December 2011, 2012 and 2013:

	For the year ended		
	31 December		
	2013	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	110,601	50,522	–
EMC revenue	31,105	2,682	–
EPC revenue	79,496	47,840	–
Net profit/(loss) before tax	(15,826)	2,198	(455)
Net profit/(loss) after tax	(12,562)	1,324	(372)
	As at 31 December		
	2013	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	241,632	138,068	54,549
Current liabilities	306,081	98,198	7,072
Total assets	541,940	301,330	83,600
Total liabilities	478,008	250,378	33,972
Total equity attributable to equity shareholder of the Target Group	58,632	50,952	49,628

As shown from the above table, the Target Group didn't record any revenue for the year ended 31 December 2011. For the year ended 31 December 2012, the Target Group recorded approximately RMB50.5 million which was mainly contributed by the revenue of the EPC projects. Since then, the revenue of the Target Group for the year ended 31 December 2012 increased from approximately RMB50.5 million to approximately RMB110.6 million for the year ended 31 December 2013, representing an increase of approximately 118.9%, and such increase in revenue was mainly attributable to more revenue was recorded from the EMC projects which commenced near the end of 2012 and more EPC projects were completed in 2013 as compared to only one EMC project was under construction in progress in 2011 and completed in 2012 and one EPC project completed its construction in 2012. Despite the significant increase in turnover in 2013, the Target Group record a net loss after tax of approximately RMB12.6 million for the year ended 31 December 2013 as compared to a net profit after tax of approximately RMB1.3 million for the year ended 31 December 2012. The Target Group recorded a net loss after tax of approximately RMB0.4 million for the year ended 31 December 2011. As advised by the management of the Target Group, the profit margin of the EPC based business was relatively low and given the significant amount of staff costs and business development costs incurred for the year ended 31

LETTER FROM QUAM CAPITAL

December 2013 in association with the expansion of the Target Group's business, the Target Group either recorded a net loss for the year or a relatively low level of net profit comparing to its revenue. Although the revenue from the EPC segment represents approximately 94.7% and 71.9% for the two years ended 31 December 2012 and 2013 respectively, we are advised by the management of the Target Group that the Target Group will focus more on the EMC projects given the relatively low profit margin of the EPC projects and the relatively high profit margin of the EMC projects.

As shown from the above table, the Target Group had current asset of approximately RMB241.6 million which is less than the current liabilities of approximately RMB306.1 million as at 31 December 2013 as compared to the net current asset position of approximately RMB39.9 million as at 31 December 2012. The reason for the decline of the current financial position of the Target Group in 2013 was mainly due to the significant increase in bank borrowings of approximately RMB98.1 million and trade and other payables of approximately RMB109.9 million in 2013. As advised by the management of the Target Group, such deterioration of the current financial position of the Target Group was mainly attributable to the business cycle of the nature of the EMC and EPC projects undertaken by the Target Company which requires significant amount of investment in the raw materials and equipments in the commencement of the project and the revenue of the project will be incurred after the implementation of the entire energy-saving solution for the project was completed.

Further details of the information of the Target Group and its structure before and after Completion have been set out under the sub-section headed "Information about the Target Group" in the Letter from the Board.

4. Reasons for and benefits of the entering into of the Sale and Purchase Agreement

The Company is principally engaged in, among others, the design, manufacturing and distribution of EMS and provision of solutions services.

As set out in the Letter from the Board, the Group's EMS business in the PRC alone represents approximately 34.09% of the total profit of the Company for the year ended 31 December 2013. The EMS segment in the PRC recorded 61.21% and 67.77% year-on-year increase in terms of generated profit and revenue for the year ended 31 December 2013, which outperformed other business segments of the Company and was the key driver to the Company's profit and revenue growth. As set out in 第十二個五年規劃 (the 12th Five-Year Plan*), the energy-saving industry is expected to be one of the seven strategic emerging industries to be developed in the PRC. The PRC government has committed to meet a 16% reduction per unit of GDP in energy use and a 17% reduction per unit of GDP in carbon dioxide emissions. It also mentioned that the aggregate sales of the EMC-based energy saving service industry in the PRC is forecasted to grow at an average annual growth rate of 30% during the period of 12th five year (2010–2015).

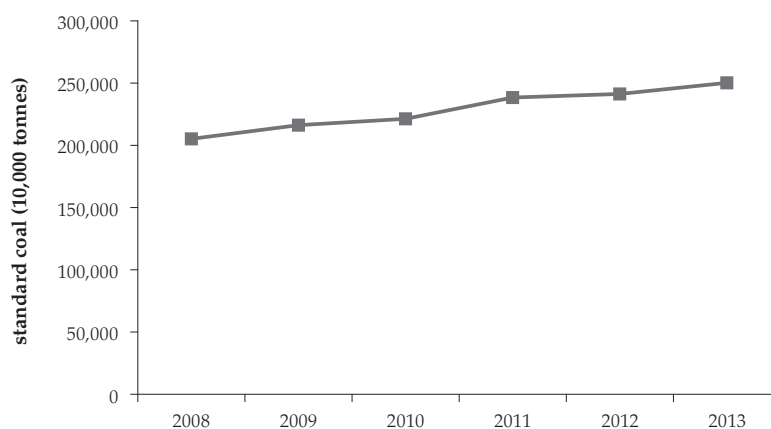
LETTER FROM QUAM CAPITAL

As set out in the Letter from the Board, recent policies were issued by the PRC government for supporting and promoting the energy-saving industry, in particular:

- (i) the 12th Five Year Building Energy Saving Special Plan issued by the Ministry of Housing and Urban Development (“MOHURD”) in May 2012, which targets to save 116 million tonnes of standard coal in building energy conservation by 2015; and
- (ii) the Chinese Green Building Movement Plan issued by MOHURD in early 2013, which emphasises the energy efficiency of buildings with specific targets and promotions in building energy conservation during 第十二個五年規劃 (the 12th Five-Year Plan*) and sets subsidies for green buildings.

As the unit of energy-saving to produce heat is the main calculation basis of the revenue of EMC-based projects of the Target Group, we have considered the domestic energy consumption in coal in the PRC, being one of the major type of raw material to produce heat, from 2008 to 2013. According to National Bureau of Statistics of China, the volume of total coal consumption increased steadily from approximately 2,048.9 million tonnes in 2008 to 2,498.3 million tonnes in 2013, which represented a compound annual growth rate (“CAGR”) of approximately 4.0%. Detail of the domestic energy consumption in coal in the PRC from 2008 to 2013 is illustrated in the chart below:

Total coal consumption in the PRC (2008-2013)



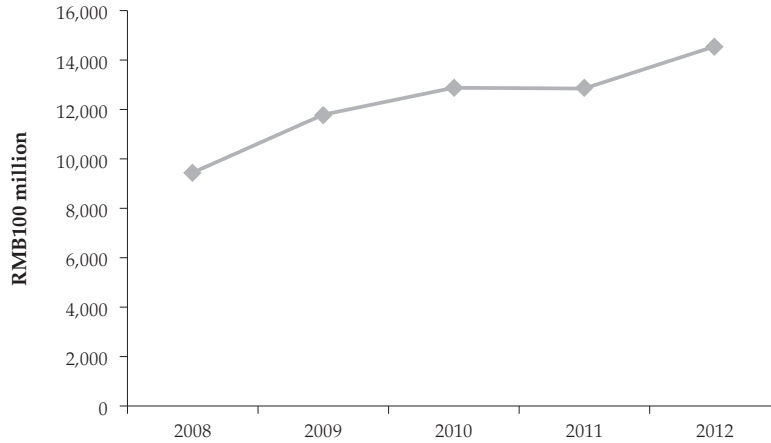
Source: National Bureau of Statistics of China

As electricity, steam, hot water production and supply in the PRC is the major type of energy which can be saved with the technology of the Target Group, we have considered the historical investments in electricity, steam, hot water production and supply industry in the PRC from 2008 to 2012. According to National Bureau of Statistics of China, the aforesaid investments recorded a double-digit CAGR increase, being approximately 11.4%, from approximately RMB944.4 billion in 2008 to RMB1,455.3 billion

LETTER FROM QUAM CAPITAL

in 2012. Detail of the historical investments in electricity, steam, hot water production and supply industry in the PRC from 2008 to 2012 is illustrated in the chart below:

Investment in electricity, steam, hot water production & supply industry in the PRC (2008-2012)



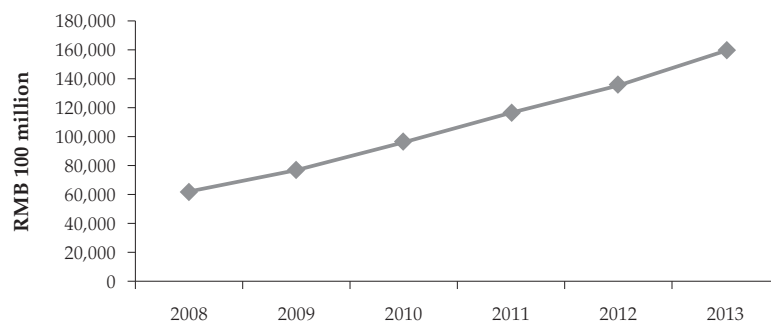
Source: National Bureau of Statistics of China

Note: The detail of the historical investments in electricity, steam, hot water production and supply industry in the PRC in 2013 is not available.

As advised by the management of the Target Group, its potential customers comprise of, among other things, heat provider in PRC's city, crude steel production company and electricity production company, which require a large amount of consumption and production of heat and water wastage. We have considered the historical construction output value in the PRC, crude steel production volume in the PRC and the wastewater discharge volume in the PRC to assess the prospects of the business of the Target Group.

According to National Bureau of Statistics of China, the total construction output value increased significantly from approximately RMB6,203.7 billion in 2008 to RMB15,931.3 billion in 2013, which represented a CAGR of approximately 20.8%. As the construction output value increase, there would be a higher demand for the heat provider to provide heat which in turn increases the demand for efficient and energy-saving solutions to be provided by the Target Company to the heat provider. Detail of the total construction output value in the PRC from 2008 to 2013 is illustrated in the chart below:

Construction output value in the PRC (2008-2013)

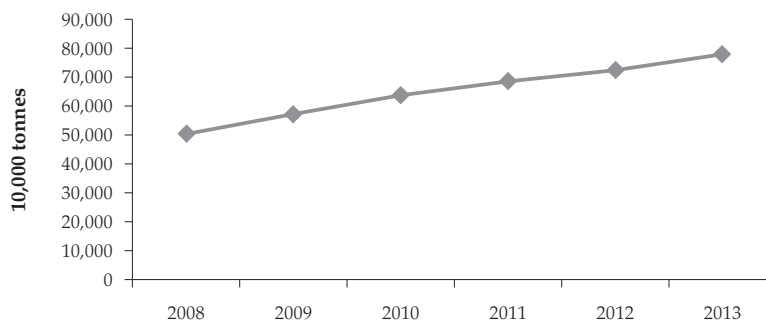


Source: National Bureau of Statistics of China

LETTER FROM QUAM CAPITAL

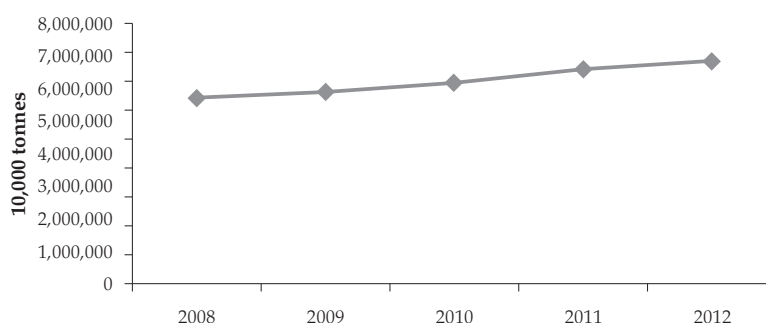
Details of the crude steel production volume in the PRC from 2008 to 2013 and the total wastewater discharge volume in the PRC from 2008 to 2012 are illustrated in the charts below:

Crude steel production volume in the PRC (2008-2013)



Source: National Bureau of Statistics of China

Total wastewater discharge volume in the PRC (2008-2012)



Source: National Bureau of Statistics of China

Note: The detail of the total wastewater discharge volume in the PRC in 2013 is not available.

According to National Bureau of Statistics of China, the total crude steel production volume in the PRC increased steadily from approximately 503.1 million tonnes in 2008 to 779.0 million tonnes in 2013, which represented a CAGR of approximately 9.1%, while the wastewater discharge volume increased modestly from approximately 571,680 billion tonnes in 2008 to 684,761 billion tonnes in 2012, which represented a CAGR of approximately 4.6%. As the crude steel production requires large amount of consumption of energy and water, the increase in the crude steel production volume in the PRC from 2008 to 2013 illustrated that the Target Company can take advantage of the increasing crude steel production market with the advanced technology of the Target Company to potential customers to provide its energy-saving solutions.

Given that (i) the historical consumption of the coal is on an upward trend; (ii) the increasing awareness of energy savings in the PRC resulted from promotion of energy consumption efficiency by the PRC government; and (iii) the subsidies to be given by the PRC central government and provincial government as another source of income, it is expected that the demand on EMC/EPC services will continue to increase. Also, based on the information provided by the Target Group, its existing and target customers are mainly engaged in heat provision in PRC's city, crude steel

LETTER FROM QUAM CAPITAL

production and electricity production, the above-mentioned factors are favourable to the business of the Target Group.

Upon Completion, the Target Company can provide unique heating and cooling energy-saving techniques in industrial and architectural usage as mentioned in the paragraph headed “3. Background and financial information on the Target Group” above to the Enlarged Group, as well as serving a platform for the Enlarged Group to take advantage of its existing networks to expand its client bases and to further penetrate into the share in energy-saving industry in the PRC. In view of the potential growth in the energy management business, the support it gains from the PRC government and the expanded pools of clientele by sharing information and technology across the two market segments under the energy-saving solution industry, we concur with the Directors view that it is beneficial for the Company to seek suitable investment opportunities from time to time to seize the growing potential of the energy management market and enhance the Company’s position in this segment.

Furthermore, the Directors consider that entering into the Sale and Purchase Agreement and the Acquisition would allow the Company to utilize the capacity and technique of the Target Company which are different from the Company, allowing the Company to expand and meet the mounting demand in energy management solution market. In particular, the Company can benefit from the Target Company’s experienced know-how of the absorption heat pump system technique, which is employed extensively in industrial energy-saving heating business. In addition, the Company can benefit from the Target Company’s experienced know-how of the energy-storage and energy-saving cooling system, which can strengthen the competitive advantage in respect of the energy-saving architecture.

As indicated in the 2011 Annual Report, 2012 Annual Report and 2013 Annual Report, the revenue generated from the Group’s energy management segment recorded US\$7.6 million, US\$13.0 million and US\$21.9 million for the year ended 31 December 2011, 2012 and 2013 respectively, which was on an upward trend. The Group has been focusing on expanding the sales of its energy-saving solutions and products and customer base and will devote its resources to explore new business models, expand customer base and addressable market and enhance its business presences. Thus, we concur with the view of the management of the Company that the entering into of the Sale and Purchase Agreement is in line with the Group’s business strategy.

As set out in the Letter from the Board, the Target Group, as at 31 March 2014, had entered into 16 legally binding contracts with its customers, including 14 EMC-based projects, 13 of which are involved in waste heat recovery while the remaining one involved in moisture removal, and 2 EPC-based projects which are involved in ice storage system. The contract amounts ranged from RMB7 million to RMB120 million for each of the EMC contracts. As advised by the management of the Target Group, construction for 5 of the EMC-based projects had been completed whereas revenue generated during the energy-saving benefits sharing period

LETTER FROM QUAM CAPITAL

started accruing and 9 of the EMC-based projects have commenced construction by the Target Group. It is expected that the construction work of all the 14 EMC-based projects and 2 EPC-based projects will be completed by the end of 2014. The Target Group, as at 31 March 2014, had also entered into 16 letters of intent with its potential customers, including 12 EMC-based projects and 4 EPC-based projects, of which 7 EMC-based projects had completed feasibility research. As advised by the management of the Target Group, contracts are expected to be signed in the next two years for projects of the said letters of intent. As set out in the Valuation Report, assuming, among other things, the projects of the Company with signed letters of intent can be invested and constructed in accordance with expected investment time and scale, the Target Company is forecasted to undertake 15 EMC-based projects and 3 EPC-based projects as at 31 December 2014 and 21 EMC-based projects and 2 EPC-based projects as at 31 December 2015 as compared to 14 EMC-based projects and 2 EPC-based projects as at 31 March 2014. Despite the fact that the Target Group was loss making for the year ended 31 December 2013 and the Target Company is still in its start-up stage of its EMC business which requires significant set-up and investment costs for each new project causing a negative impact to its profit and cash flow level, we considered that the financial performance of the Target Group will be improved once more EMC-based projects have been implemented and completed and a stable revenue can be generated from the Target Group's customers, as evident by the forecast number of EMC and EPC projects that can contribute operating revenue as set out in the Valuation Report that the forecasted number of EMC-based projects are increasing from 15 EMC-based project as at 31 December 2014 and to 26 EMC-based projects in 2017 and continue to have at least 20 EMC-based projects until the end of 2021, and the overhead costs of the projects could be economically shared by the increased number of projects. Given the duration of revenue-sharing period (or, the energy-saving benefits sharing period) of the EMC projects are normally in the range of six to twelve years upon completion of the construction of project infrastructure, we also considered that the EMC business of the Target Group can generate a recurring cash flow to the Enlarged Group upon Completion once all of the aforesaid contracts and letters of intent have been implemented and completed.

We note from the financial information of the Target Group as set out in the appendix IIA to the Circular, the Target Group recorded net current liabilities position of RMB64.4 million as at 31 December 2013. As advised by the management of the Target Group, the net current liabilities position of the Target Group was mainly attributable to the business cycle of the nature of the EMC and EPC projects undertaken by the Target Company which are capital intensive and require significant amount of investment in the raw materials and equipments in the commencement of the project and the cash and revenue of the project will be received and incurred after the construction of the entire energy-saving solution for the project was completed. As such, in view of the capital needs for its business development, the Target Group has obtained certain bank borrowings to finance the investment in the raw materials and equipments in 2013. The net current assets of the Enlarged Group would decrease from approximately US\$66.5 million to approximately US\$55.9 million upon Completion as illustrated in the pro forma financial information as set out in appendix V to the Circular, representing a

LETTER FROM QUAM CAPITAL

decrease of approximately 15.9%, given the Enlarged Group will still remain in a net current assets position, we consider that the net current liabilities position of the Target Group would not have material impact on the working capital of the Enlarged Group.

Having considered the abovementioned reasons and benefits, we are of the view that the Acquisition offers the Company a good opportunity to develop its business and enhance its income stream in the energy management solution market and are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Sale and Purchase Agreement

Date:

17 April 2014

Parties:

- (i) Vendors: Resuccess and Valuworth; and
- (ii) Purchaser: the Company

Subject matter:

The Sale Shares, being the shares of TFRH Investments representing the entire equity interest in TFRH Investments, together with the share of Excel Perfect representing the entire equity interest in Excel Perfect, which in turn own 75% and 25% equity interest in Target Company respectively.

Consideration:

The Consideration is RMB380 million (equivalent to approximately HK\$478.4 million) which was arrived at after arm's length negotiations between the parties taking into consideration of the valuation of the Target Company as set out in the Valuation Report. According to the Valuation Report, the valuation of the Target Company as at 31 March 2014 was approximately RMB380.8 million. The Consideration shall be satisfied by the issue and allotment of a total of 119,608,189 Consideration Shares, out of which 89,706,142 Consideration Shares will be issued to Resuccess and 29,902,047 Consideration Shares will be issued to Valuworth, credited as fully paid up, at the issue price (the "Issue Price") of HK\$4 per Consideration Share.

As set out in the Letter from the Board, the Directors are aware of the considerable premium between the original costs of approximately RMB18.9 million (equivalent to approximately HK\$23.8 million) paid by Valuworth through Excel Perfect in obtaining the 25% equity interest in the Target

LETTER FROM QUAM CAPITAL

Company in 2013 and the consideration to be received by Valueworth in the Acquisition. However, the Directors are of the view that the original cost is irrelevant to the determination of the Consideration which was the result of the arm's length negotiations among the Purchaser and the Vendors and after taking into account the valuation of the Target Company in the Valuation Report.

We consider that the original cost of the 25% equity interests of the Target Company paid by Excel Perfect was a commercial decision between the two entities, the Company was not in a position to question the rationale of such transaction as it is not a party; having said that, the Directors are aware of such past transaction and have made an independent assessment of the merits of the Acquisition, for reasons and benefits of the Acquisition, please refer to the paragraph headed "4. Reasons for and benefits of the entering into of the Sale and Purchase Agreement" above. We concur with the view of the Directors that the original cost of the 25% equity interest of Valueworth is irrelevant to the determination of the Consideration, which we consider fair and reasonable as described in the paragraph headed "8. Valuation report on the Target Company" below. Regarding the premium between the original costs paid by Valueworth through Excel Perfect in obtaining its 25% equity interest in the Target Company and the consideration to be received by Valueworth in the Acquisition, we consider that it may be due to (i) the nature and the scale of operation of the Target Company were different at two different points of time, such as, the nature of the projects then carried out by the Target Company were mainly EPC-based projects with relatively low profit margin and recognize revenue at the completion of project construction and the contract sum and the expected revenue from the sharing amount of energy-saving of contracted projects and signed letters of intent of the Target Company was less than those as at the date of Valuation; and (ii) the premium for acquiring the entire equity interest in the Target Company as compared to the minority stake of the Target Company.

Consideration Shares:

The Consideration Shares represent (i) approximately 22.9% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 18.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price represents:

- (i) a discount of approximately 12.3% and 13.0% to the respective Volume Weighted Average Price and the closing price of HK\$4.56 and HK\$4.60 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 10.3% and 11.1% to the respective Volume Weighted Average Price and Simple Average Price of

LETTER FROM QUAM CAPITAL

HK\$4.46 and HK\$4.50 per Share for the last five consecutive trading days up to and including the Last Trading Day;

- (iii) a discount of approximately 10.5% and 11.5% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.47 and HK\$4.52 per Share for the last fifteen consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 9.9% and 10.9% to the respective Volume Weighted Average Price and Simple Average Price prices of HK\$4.44 and HK\$4.49 per Share for the last thirty consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 4.8% and 8.0% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.20 and HK\$4.35 per Share for the last forty consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 1.5% and 2.4% to the respective Volume Weighted Average Price and Simple Average Price of HK\$4.06 and HK\$4.10 per Share for the last fifty consecutive trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 0.5% and 2.0% to the respective Volume Weighted Average Price and Simple Average Price of HK\$3.98 and HK\$3.92 per Share for the last sixty consecutive trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 185.7% over the net asset value per Share attributable to Shareholders of approximately HK\$1.4 as at 31 December 2013; and
- (ix) a premium of approximately 4.2% over the closing price of HK\$3.84 per Share as at the Latest Practicable Date.

As set out in the Letter from the Board, the Issue Price was arrived at after arm's length negotiations among the Purchaser and the Vendors after taking into account (i) the thin trading volume of the Share; and (ii) volatility and fluctuation of the closing price of the Shares for the past two months prior to the Last Trading Day which the Directors consider the gradual increase in closing price may be the result of the investor speculation in expectation of the positive performance of the Company for its 2013 annual result.

Conditions precedent:

Completion shall be subject to, amongst others, the following conditions precedent:

- (i) the passing of a resolution by the Independent Shareholders at the EGM approving (a) the Acquisition; (b) the Specific Mandate; and (c) the Procurement Agreement;

LETTER FROM QUAM CAPITAL

- (ii) the passing of resolutions by the Independent Shareholders at the EGM approving the HK Whitewash Waiver and if applicable, the Singapore Whitewash Waiver;
- (iii) the Stock Exchange having approved the listing of, and granted the permission to deal in, the Consideration Shares and such approval not having been revoked or amended;
- (iv) the Executive having granted and not having withdrawn, or revoked such grant, of the Whitewash Waiver and the fulfillment of all conditions, if any, attached to it;
- (v) the grant by the SIC of either (a) the Singapore Whitewash Waiver or (b) the Singapore Code Waiver (on conditions, if any, reasonably acceptable to the Purchaser and to the extent that any such conditions are required to be fulfilled on or before the Completion Date, they are so fulfilled) and such Singapore Whitewash Waiver or, as the case may be, the Singapore Code Waiver not having been withdrawn or revoked;
- (vi) the Purchaser notifying the Vendors in writing that it is satisfied in reliance on the warranties as to:
 - (a) the respective financial, contractual, tax and trading positions and prospects of each member of the Target Group; and
 - (b) the title of the members of the Target Group to their respective assets;
- (vii) the Vendors having complied fully with their obligations specified in the Sale and Purchase Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by them under the Sale and Purchase Agreement;
- (viii) there having been no material adverse change since the date of the Sale and Purchase Agreement;
- (ix) the valuation of the Target Company as appraised by the Valuer as of 31 March 2014 and stated in the valuation report shall be not less than RMB380 million;
- (x) all other necessary consents from third parties (including governmental or official or regulatory authorities) and all other necessary consents and approvals required pursuant to any legal or regulatory requirements in respect of the sale and purchase of the Sale Shares having been obtained; and

LETTER FROM QUAM CAPITAL

- (xi) no statute, regulation or decision which would prohibit, restrict or materially delay the execution, delivery or performance of the transaction documents, the consummation of the transactions contemplated by the Sale and Purchase Agreement or the operation of the members of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority whether in Hong Kong, the PRC, the BVI, the Cayman Islands or elsewhere.

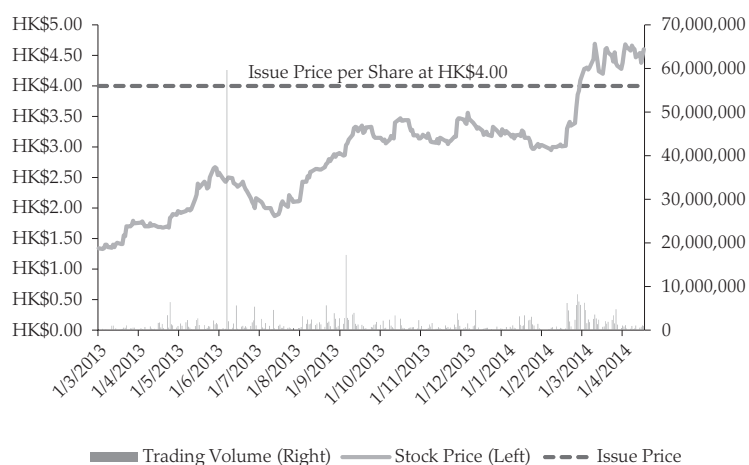
Save for the conditions precedent set out in paragraphs (vi), (vii) and/or (viii) above that can be waived by the Purchaser in its absolute discretion, none of the conditions precedent can be waived. In the event that any of the conditions precedent shall not have been fulfilled or waived by 30 September 2014 (or such other date as may be agreed between the Purchaser and the Vendors), the Purchaser shall not be bound to proceed with the purchase of Sale Shares, and the Sale and Purchase Agreement shall cease to be of any effect save in respect of claims arising from any antecedent breaches of the Sale and Purchase Agreement.

With regard to the condition set out in paragraph (v), on 20 May 2014, the Singapore Code Waiver had been obtained by the Company. Further information on the Singapore Code Waiver is set out in the Letter from the Board. In addition, the condition set out in paragraph (ix) is satisfied as at the Latest Practicable Date.

6. Review on the share price performance of the Shares

To assess the fairness and reasonableness of the Issue Price, we set out the following information analyses which include reviews on both the historical price and trading liquidity of the Shares. Set out below is chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 1 March 2013, being approximately one year before the Last Trading Day, to 17 April 2014, being the Last Trading Day (the “**Review Period**”):

**Stock Price and trading volume of the Shares
during the Review Period**



Source: Website of the Stock Exchange

LETTER FROM QUAM CAPITAL

As illustrated in the chart above, the closing prices of the Shares quoted on the Stock Exchange during the Review Period ranged from HK\$1.33 per Share on 4 March 2013 to HK\$4.69 per Share on 11 March 2014. We note that the Issue Price was at premium over the historical closing price of the Share throughout most of the Review Period with the closing price of the Share ranged from HK\$1.33 per Share to HK\$3.92 per Share during the period from 1 March 2013 to 27 February 2014 and was at discount to the historical closing price of the Share from 28 February 2014 to the Last Trading Day, being the last 35 consecutive trading days prior to and including the Last Trading Day, ranged from HK\$4.09 per Share to HK\$4.69 per Share.

We note from the above chart that the closing price of the Share experienced an upward trend during the Review Period and had increased from HK\$1.34 per Share on 1 March 2013 to HK\$4.60 per Share on 17 April 2014, representing an increase of approximately 243.3% over the Review Period. The closing price of the Share was near its lowest at the beginning of the Review Period and increased from HK\$1.34 per Share on 1 March 2013 to HK\$1.70 per Share on 22 March 2013, being the first trading day after the release of the annual results announcement of the Company for the year ended 31 December 2012, representing an increase of approximately 26.9% over the aforesaid period of 16 trading days. We consider the sharp increase may due to the speculation of the positive annual results of the Group for the year ended 31 December 2012.

As set out in the announcement of the Company dated 26 March 2013 and the circular of the Company dated 23 April 2013 in relation to the construction of an architectural complex in downtown of Karamay (the “**Karamay BT Project**”) with total project investment of around RMB180 million, the Karamay BT Project comprises substantially works on smart control system and energy-saving elements in the building complex therein, the Company was engaged to supply energy-saving products and related equipment required for the Karamay BT Project. Following the announcement and the circular in relation to the Karamay BT Project, the share price of the Company surged from around HK\$1.70 on 22 March 2013 to HK\$2.67 on 28 May 2013, representing an increase of approximately 57.1% during the two-month period. The share price of the Company adjusted downward from HK\$2.46 per Share on 6 June 2013 to HK\$1.87 per Share on 12 July 2013, representing a decrease of approximately 24.0% for the said period, following the announcement in relation to Zana China Fund L.P., a substantial Shareholder, and a Shareholder, namely, CTC Capital selling a large number of shares of the Company on 6 June 2013 which recorded 59.6 million trading volume on the same day. From 12 July 2013 to 5 December 2013, the share price of the Company has almost doubled from HK\$1.87 per Share to HK\$3.56, with two small downward adjustment periods which ranged HK\$3.05 per Share to HK\$3.47 per Share. Following 5 December 2013, the share price of the Company experienced the third downward adjustment period which sees the closing price moved back to the region of around HK\$3.00 per Share until the share price of the Company surged from HK\$3.02 per Share on 17 February 2014 to HK\$4.62 per Share on 20 March 2014, being the trading day before the release of the annual results announcement of the Company for the year ended 31 December 2013, representing an increase of approximately 53.0% over the period of 24 trading

LETTER FROM QUAM CAPITAL

days. As the month of surging of the share price of the Company is similar to the trend observed in March 2013, we consider the sharp increase may also due to the speculation of the positive annual results of the Group for the year ended 31 December 2013. The Share has been trading in the range of HK\$4.28 per Share to HK\$4.68 thereafter until the Last Trading Day.

Despite the Issue Price represents a discount of approximately 13.0% to the closing price of HK\$4.60 per Share on the Last Trading Day, we note that the Issue Price (i) is within the range of the lowest price of HK\$1.33 per Share and the highest price of HK\$4.69 per Share during the Review Period; (ii) represents a premium of approximately 2.0% over the Simple Average Price of HK\$3.92 per Share for the last sixty consecutive trading days up to and including the Last Trading Day; and (iii) represents a premium of approximately 32.0% over the Simple Average Price of HK\$3.03 per Share for the Review Period. Given the price history of the Shares analysed above, we consider that the Simple Average Price for the last sixty consecutive trading days up to and including the Last Trading Day is a reasonable comparison over a longer period of time as it can show a relatively clear view of the share price of Company during the Review Period while it can also reflect the current market circumstances of the share price of the Company. Having considered the above factors, we consider that the Issue Price is fair and reasonable in this regard.

7. Review on the trading liquidity of the Shares

As illustrated above, during the Review Period, the average daily trading volume of the Shares as a percentage of the total number of issued share of the Company ranged from approximately 0.003% to approximately 11.44% with the average daily volume being approximately 0.301%. During the Review Period, the daily trading volume of the Shares was below 1.58% of the total number of issued share of the Company except for two trading days, i.e., 6 June 2013 and 4 September 2013.

According to the announcement in relation to unusual price and trading volume movement dated 6 June 2013, each of a substantial Shareholder, namely, Zana China Fund L.P. and a Shareholder, namely, CTC Capital had sold a large number of shares of the Company on 6 June 2013. According to the website of the Stock Exchange in relation to disclosure of interests, Zana China Fund L.P. had sold 43 million shares of the Company at an average price per share of HK\$2.34. Furthermore, according to the notices in relation to disclosure of interests dated 6 September 2013 on the website of the Stock Exchange, Mr. Zhao Xiaobo and Mr. Seah Han Leong, both are executive Directors, had sold 7 million and 6 million shares of the Company at an average price per share of HK\$2.80, respectively, on 4 September 2013. Apart from that, the trading liquidity of the Shares as compared to the total number of issued share of the Company remained thin during the Review Period.

8. Valuation report on the Target Company

As stated in the Letter from the Board, the Consideration was determined by the Company and the Vendors after arm's length negotiations and considering a number of factors, including but not limited to the valuation of the Target Company. The Company has engaged the Valuer to conduct a business valuation on the Target Group and the Valuation Report is set out in appendix III to the Circular. According to the Valuation Report, the Target Company is valued at approximately RMB380.8 million as at 31 March 2014. The Consideration of approximately RMB380 million represents a slight discount of approximately 0.2% to the aforesaid valuation.

We have interviewed with the Valuer and were given to understand that the Valuer is independent and has no prior relationship with the Company, the connected persons of the Company and other parties to the Sale and Purchase Agreement. We have reviewed the engagement letter of the Valuer and have assessed the experience and the qualification of the Valuer.

In assessing the fairness and reasonableness of the valuation of the Target Company, we have studied the valuation methodology, basis of valuation and assumptions underlying the Valuation Reports.

(i) Valuation methodology

We observed from the Valuation Report that the Valuer had considered three generally accepted valuation approaches, i.e. income approach, market approach and asset-based approach and the valuation of the Target Company has been carried out on the basis of fair value under the discounted cash flow method under the income approach for a period from 1 April 2014 to 31 December 2025. As set out in the Valuation Report, the discounted cash flow method used for the Valuation refers to an appraisal technique by estimating the expected future net cash flows of the subject of valuation and discounting them to the present value using the appropriate discount rate to determine the appraisal value.

We have discussed with the Valuer regarding the valuation methodology of the valuation, the forecast of the future income prepared by the Target Company which is mainly generated from the EMC and EPC projects and the underlying assumptions of the valuation as stated in the Valuation Reports. After discussion with the Valuer, we understand that in the process of valuing the Target Company, the Valuer has taken into consideration the Company's operation and the industry in which it is participating. Having considered the three general valuation methodologies, the Valuer believed that the income approach would be appropriate and reasonable in the appraisal of the value of the Target Company. On the other hand, the market approach is not appropriate as it is difficult to collect information required for transaction case comparison method and the financial indicators of the Target Company are not qualified for comparison

LETTER FROM QUAM CAPITAL

with listed companies. As the impacts on enterprise value regarding the energy-saving technologies, operating model, management system and future profitability of the assessed unit in the heating and cooling fields cannot be reflected by asset-based approach, the asset-based approach is not appropriate to this appraisal. Therefore, we and the Valuer are of the view that the income approach is the most appropriate valuation methodology.

(ii) Valuation of the Target Company and its assumptions

We have discussed with the Valuer regarding the factors taken into account in estimating the net cash flow and the determination of the discount rate under the discounted cash flow methodology adopted in such valuation. We have been advised that the value of the Target Company was calculated on the basis of free cash flows from operation, capital expenditures, net change in working capital and weighted average cost of capital, which are calculated at an annual rate of 11.47% as estimated using Weighted Average Cost of Capital Pricing Model with consideration of the capital structure of the Company. We have reviewed the forecast of the future income, being the major part of the value of the Target Company, and concur with the Valuer that such forecast of the future income has been properly compiled in accordance with the assumptions made by the Directors which have been made with due care and consideration and made on an objective and a reasonable basis. The value of the Target Company was then arrived at by (i) adding the value of long-term equity investment and the value of surplus or non-operating assets (liabilities) of the Target Company, and (ii) deducting the net change in working capital, imputed cost of working capital from the free cash flows from operation and the value of interest-bearing liabilities.

We also understand that the discount rate applied to the value of the Target Company is based on the cost of equity finance which is developed through the application of the Capital Asset Pricing Model (“CAPM”). The cost of equity, which represents the required rate of return of the Acquisition, is estimated by using the CAPM taking into account the average market risk premium, risk free interest rate, market return of the PRC and risk adjustment specific to the Target Company. The risk adjustment specific to the Target Company is determined as 3% with thorough consideration of production and operation scale, status of operation, financial position and liquidity.

We note from the Valuation Report that the conclusions of valuation regarding the subject of this valuation are based on the following, amongst others, assumptions, pre-conditions, and limiting conditions:

- (a) Assuming that the Target Company will not have new investment projects other than the contracted projects and those with signed letters of intent;

LETTER FROM QUAM CAPITAL

- (b) Assuming that the projects of the Target Company with signed letters of intent can be invested and constructed in accordance with expected investment timeframe and scale, and can realize the expected energy-saving benefit;
- (c) Assuming that the energy-saving benefit proceeds of the Target Company for the forecast year can be recovered during the agreed payment period in the contract;
- (d) Assuming that the selling and management expenses of the Target Company for the forecast year are well-matched with the scales of projects invested and operated; and
- (e) Assuming that the Target Company will be able to gain necessary capital for operation during the forecast year.

Based on our discussion with the management of the Company, the Target Group and the Valuer, we understand that while it is the discretion of the Valuer in selecting the most appropriate methodologies in valuing the underlying business based on their professional judgment, the valuation approaches adopted by the Valuer as mentioned above are commonly used and accepted in the PRC and are in accordance with the relevant rules and regulations concerning valuation issued by the Ministry of Finance, the PRC and other relevant authorities in the PRC. Upon reviewing the Valuation Report and discussing with the Valuer in respect of the fairness of the principal assumptions adopted in arriving the valuation of the Target Company as well as taking into account (i) the independence, qualification and experience of the Valuer; (ii) the confirmation from the Board in the Letter from the Board that the profit forecast included in the Valuation Report has been made after its due and careful enquiry; and (iii) pursuant to Rule 13.80(2) under the Listing Rules, there is no reason for us to believe any of the information in the Valuation Report is not true or omits a material fact, we are of the view that one of the major assumptions regarding the signed letters of intent will be proceeded and can realize the expected energy-saving efficiency as contemplated in valid and reasonably made by the Valuer and the value of the Target Company has been reasonably prepared and are normal in nature without any unusual assumption and the basis of the value of the Target Company is fair and reasonable. As such, we consider the valuation of the Target Company is a good reference for Independent Shareholders to assess the fairness and reasonableness of the Consideration and having considered the fact that the Board has taken into account the valuation of the Target Company when determining the Consideration, we are of the opinion that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Independent Shareholders are advised to refer to the Valuation Report prepared by the Valuer contained in Appendix III to the Circular for details of the basis and assumptions of the valuation of the Target Company.

LETTER FROM QUAM CAPITAL

9. Dilution effect on the shareholding interests of existing Shareholders

Name of Shareholders	As at the Latest Practicable Date		After allotment and issue of the Consideration Shares upon Completion (assuming that no additional Shares are issued and no outstanding options in respect of the Shares are exercised before Completion)	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Controlling Shareholder and the Controlling Shareholder Concert Parties				
The Controlling Shareholder <i>(Note 1)</i>	92,000,000	17.64%	92,000,000	14.35%
Resuccess <i>(Note 1)</i>	80,000,000	15.34%	169,706,142	26.47%
Valuworth <i>(Note 2)</i>	–	0.00%	29,902,047	4.66%
<hr/>				
Sub-total of shareholding interests owned by the Controlling Shareholder and the Controlling Shareholder Concert Parties	172,000,000	32.98%	291,608,189	45.48%
Other Shareholders				
Zana China Fund L.P.	65,436,320	12.55%	65,436,320	10.21%
Mr. Seah Han Leong <i>(Note 3)</i>	18,120,000	3.47%	18,120,000	2.83%
Mr. Zhao Xiaobo <i>(Note 3)</i>	5,120,000	0.98%	5,120,000	0.80%
<hr/>				
Public Shareholders	88,676,320 260,843,680	17.00% 50.02%	88,676,320 260,843,680	13.83% 40.68%
<hr/>				
Total	521,520,000	100.00%	641,128,189	100.00%

Notes:

1. Resuccess is a substantial Shareholder and an indirect wholly-owned subsidiary of the Controlling Shareholder and a party acting in concert with the Controlling Shareholder under the Takeovers Code. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the Controlling Shareholder and Resuccess, there are no other associates of the Controlling Shareholder who are shareholders of the Company.
2. Valuworth is regarded as party acting in concert with the Controlling Shareholder under the Takeovers Code.
3. Mr. Seah Han Leung and Mr. Zhao Xiaobo are executive Directors.

LETTER FROM QUAM CAPITAL

As shown from the table above, the shareholding interests of the existing public Shareholders in the Company would be reduced by approximately 9.3% immediately after Completion, while the aggregate shareholding interests of the Controlling Shareholder and the Controlling Shareholder Concert Parties in the Company would be increased by approximately 12.5% immediately after Completion.

Notwithstanding the potential dilution effect brought by the issue of Consideration Shares, taking into account the reasons and benefits of the Acquisition above, the analysis on the reasonableness of the Consideration and the Issue Price, we are of the view that the potential dilution on the shareholding interest of the existing public Shareholders is acceptable.

10. Other financing alternatives available to the Group

As advised by the Directors, apart from the issue of the Consideration Shares, the Directors have also considered other means of financing, such as bank borrowings, placing, open offer, rights issue, to raise capital required for the Acquisition.

With respect to debt financing such as bank borrowings, the management of the Company confirmed that the Company communicates with banks about the costs and collateral requirements for further financing from time to time. The Company, as informed by the banks, would be required to pledge a certain amount of assets which should not represent a significant discount to the loan amount as collateral or unsecured bank loans or other external financing which may charge the Company at an interest rate higher than the current average interest rate range of the Group on the existing short-term and long-term borrowings of 5.83% to 3.84%, respectively, as noted from the 2013 Annual Report. As the value of the Consideration Shares, which is amounted to RMB380 million (equivalent to HK\$478.4 million), representing approximately 29.1% of the total assets of the Company as at 31 December 2013, the Company does not consider the debt financing method could be done in the interests of the Group and the Shareholders as a whole.

With respect to equity financing such as placing, open offer and rights issue, most would incur substantial costs in form of placing commission or underwriting commission. Moreover, as advised by the Directors, given that the price of the Shares has risen approximately 243.3% during the Review Period, it is difficult for the Company to locate any potential investors for placing without a significant discount on the placing price. For the same reason, without a significant discount on the subscription price, it is also difficult for the Company to attract any shareholder or potential investor to participate in other fund raising exercises such as open offer or rights issue. Although both open offer and rights issue may allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, such fund raising exercises would be relatively time consuming as compared to the proposed issue of Consideration Shares and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. As such, the Directors consider that the issue of Consideration Shares is relatively simple, less time consuming and cost effective, and are of the view that the issue of Consideration Shares is an appropriate fund raising method available to the Group.

LETTER FROM QUAM CAPITAL

Taking into account the above and the funding need of the Company, we concur with the Directors' view that issue of the Consideration Shares is an appropriate means for the Company to settle the Consideration of the Acquisition.

11. Financial effects of the Acquisition

As disclosed in the Letter from the Board, the Target Company will become a wholly-owned subsidiary of the Company upon Completion and therefore the financial position and results of the Target Company will be consolidated into the financial statements of the Group. Set out below is an analysis of the financial impact of the Acquisition on the Group.

(i) Earnings

According to the accountants' report on the Target Company from the Company's reporting accountant as set out in appendix IIA to this circular, the Target Company was loss making for the year ended 31 December 2013.

As the Target Company will become a wholly-owned subsidiary of the Company upon Completion and its financial results will be fully consolidated into those of the Group, the Enlarged Group would consolidate the net profit or loss of the Target Company upon Completion. The actual effect on earnings or losses of the Company will depend on future financial performance of the Target Group.

(ii) Net asset value

According to the Pro Forma Statements, the unaudited pro forma net asset value of the Enlarged Group was approximately US\$106.7 million, representing an increase of approximately US\$10.5 million when compared to the audited consolidated net asset value of the Group as at 31 December 2013 of approximately US\$96.2 million. As noted above, there will not be any significant adverse impact on the net asset value of the Group immediately following the Acquisition.

We note that the audited net asset value of the Group as at 31 December 2013 amount to US\$0.18 per Share (or approximately HK\$1.41 per Share) (calculated based on 521,520,000 Shares in issue as at the Latest Practicable Date). Upon issue of the Consideration Shares, the number of Shares in issue will increase to 641,128,189 Shares. On such basis, the unaudited pro forma net asset value of the Enlarged Group will be approximately US\$0.17 per Share (HK\$1.30 per Share).

However, Shareholders should note that the exact effects of the Acquisition on the Group's net assets value shall only be determined, and subject to audit, upon Completion based on the then fair value of the consolidated net assets of the Target Company and the then fair value of the Consideration.

LETTER FROM QUAM CAPITAL

(iii) Working capital position

As stated in the Letter from the Board, the Consideration will be satisfied by the issue and allotment of a total of 119,608,189 Consideration Shares credited as fully paid up at the Issue Price by the Company to the Vendors. Therefore, there will not be any cash flow burden of the Group arising from settlement of the Consideration.

As advised by the management of the Target Company, it is projected to incur new capital expenditure of approximately RMB297.4 million during the year ending 31 December 2014 for the expected new EMC and EPC projects. We note from the unaudited pro forma financial information of the Enlarged Group as set out in appendix IV to the Circular, the Enlarged Group would have cash and cash equivalent balance of approximately US\$69.2 million as at 31 December 2013 on unaudited consolidated pro forma basis, which is sufficient to cover the expected new capital expenditure of the Target Group in 2014 upon Completion. We have also discussed with the reporting accountants of the Company and as set out in the sub-section headed "4. Working Capital" in the appendix I of this circular, the Directors are of the opinion that Enlarged Group has sufficient working capital for its present requirements for the next 12 months from the date of this circular taking into account the financial resources available to the Enlarged Group. As advised by the management of the Company, the additional financing needs for the cash requirement for the new projected projects of the Target Company would be fulfilled by cash collected gradually from the completed projects and/or bank borrowings. Given the duration of revenue generated from the energy-saving sharing of the EMC projects are normally in the range of six to twelve years upon completion of the construction of project infrastructure, we also considered that the EMC business of the Target Group can generate a recurring cash flow to the Enlarged Group upon Completion once all of the aforesaid contracts and letters of intent have been implemented and completed. Therefore, there will not be any imminent cash flow burden of the Enlarged Group arising from the projected capital expenditure for the expected new EMC and EPC projects in 2014.

(iv) Gearing

Based on the Pro Forma Statements, the gearing ratio, being measured on the basis of the total loans and borrowings over the net assets, of the Enlarged Group increased from approximately 21.7% of the Group as at 31 December 2013 to 64.0% due to the EMC/EPC business are capital-intensive business and the Target Group has obtained certain bank loans/borrowings in an amount of approximately US\$47.4 million as at 31 December 2013 to finance its project implementations.

(v) Conclusion

Despite the increase in gearing ratio and decrease in net asset value of the Enlarged Group upon Completion as mentioned above, taking into account (i) the business prospects of the Target Company; (ii) the positive impact of the Acquisition on the net asset value of the Enlarged Group; and (iii) the synergies brought by the Acquisition to the Group and positive outlook of the energy-saving industry in the PRC in the long run as detailed in sub-section headed "4. Reasons for and benefits of the entering into of the Sale and Purchase Agreement" above; and (iv) the Enlarged Group has sufficient working capital to cover the resulted future cash outflow of the Target Company in 2014, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

12. Reasons for and benefits of the entering into of the Procurement Agreement

As at the Latest Practicable Date, Tongfang Kawasaki is an associate of the Controlling Shareholder and has been a major supplier of the Target Company for more than two years, in particular, selling the Products (as defined below) to the Target Group. It is contemplated that upon Completion, Tongfang Kawasaki will continue to supply the Products (as defined below) to the Target Group. The Controlling Shareholder and its associates (other than the Group), including Tongfang Kawasaki, have been important suppliers and have also proven to be reliable suppliers to the Group at competitive prices which is important to the operations and business of the Group in the past and the Group has benefited from working with the Controlling Shareholder and its associates (other than the Group). Given (i) the mutual beneficial relationship between the Enlarged Group and the Controlling Shareholder and its associates (other than the Group) upon Completion; (ii) the fact that the products of the Controlling Shareholder and its associates (other than the Group) are important to the business of the Target Group; (iii) the Target Group has historically purchased products, equipment and services from the Controlling Shareholder and its associates (other than the Group); and (iv) the growing energy-saving market in the PRC market with favourable national policies in the PRC as set out in the paragraph headed "Basis of the proposed Annual Caps" below, we consider that the Procurement Agreement is entered into in its ordinary and usual course of business.

13. Principal terms of the Procurement Agreement

Date:

21 April 2014

Parties:

the Target Company and the Controlling Shareholder

LETTER FROM QUAM CAPITAL

Term:

three years from 1 January 2014 to 31 December 2016

Products to be procured:

The Controlling Shareholder and its associates (other than the Group) agreed to sell, and the Target Company and other members of the Group agreed to purchase (the “**Connected Purchase**”) heat pumps, cooling systems and other products, equipment and systems and services relating to the Group’s business of energy management, environmental protection and energy saving (the “**Products**”).

Consideration and Payment:

The price of such products supplied by the Controlling Shareholder and its associates (other than the Group) to the Group will be determined based on normal commercial terms after arm’s length negotiations, with reference to the prevailing market price of similar products at the time of a particular transaction, and in any event no less favourable to the Group than those offered by the suppliers independent to the Group.

As an active market participant, the Group will, through market research and interactions with other market participants, obtain sufficient market intelligence to enable them to ascertain the prevailing market rate, payment terms and practices as well as the latest market and independent third party supplier information at any point in time. The Company will also continue to take steps to keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions and cities in the PRC. The market rate of the products is to be ascertained based on the prevailing market price of the products determined based on:

- (a) the price of similar products used in projects of similar scale and nature offered by independent third party suppliers and accepted by the Group (the “**Comparable Purchase Transactions**”) during a period of 12 months prior to the relevant transaction with the Controlling Shareholder and its associates (other than the Group) (the “**12-Month Purchase Period**”) (if any), including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the price of similar products used in similar scale and nature of products offered by independent third party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period including but not limited to the most recent relevant transactions accepted by the Group and

LETTER FROM QUAM CAPITAL

independent third party suppliers, if any, and taking into account the latest market and independent third party supplier information obtained, through market research and interactions with other market participants, by the Group at the time of the relevant transaction with the Controlling Shareholder and its associates (other than the Group).

The detailed payment terms for purchase of the Products will be set out in separate purchase contracts which shall be on normal commercial terms and in compliance with the principles set out in the Procurement Agreement. When determining the payment terms, the Group will make reference to prevailing market practices determined based on:

- (a) the terms of projects of similar scale and nature offered by independent third party suppliers and accepted by the Group during the 12-Month Purchase Period prior to the relevant transaction with the Controlling Shareholder and its associates (other than the Group) (if any), including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers; and
- (b) if there are no Comparable Purchase Transactions within the 12-Month Purchase Period, the terms of similar products used in similar scale and nature of products offered by independent third party suppliers and accepted by the Group any time prior to the 12-Month Purchase Period, including but not limited to the most recent relevant transactions accepted by the Group and independent third party suppliers, if any, and taking into account the latest market and independent third party supplier information obtained, through market research and interactions with other market participants, by the Group at the time of the relevant transaction with the Controlling Shareholder and its associates (other than the Group).

In any event, the payment terms should be no less favorable to the Group than those offered by suppliers independent to the Group.

The Procurement Agreement sets out the fundamental principles on which future Connected Purchase will be conducted. The Company confirmed that the pricing and payment terms of the Procurement Agreement are similar to the terms of those in the existing continuing connected transactions between the Group and the Controlling Shareholder and its associates (other than the Group) and between the Group and its independent third parties. In particular, the terms of the Connected Purchase (including pricing and payment terms) must be determined with reference to the Comparable Purchase Transactions, the latest market and independent third party supplier information obtained, through market research and interactions with other market participants, by the Group at the time of the relevant transaction with

LETTER FROM QUAM CAPITAL

the Controlling Shareholder and its associates (other than the Group) and no less favorable to the Group than those available from independent third party suppliers. The Company confirmed that the abovementioned procedures to be taken by the Enlarged Group to ascertain the latest market information and terms of the Products under the Procurement Agreement are identical to the existing practices adopted by the Group. The Directors confirmed that being an active market participant in the industry, the Group is able to obtain, through market research and interactions with other market participants, sufficient market intelligence to enable them to ascertain the prevailing market rate, payment terms and practices as well as the latest market and independent third party supplier information at any point in time. The Directors confirm that the Group has taken steps to keep themselves abreast of market developments through maintaining a team of experienced procurement personnel focusing on different regions in the PRC. We consider that the market information forms a reasonable reference point for the Group to determine the price and payment terms of the Connected Purchase at the time of the relevant transaction with the Controlling Shareholder and its associates other than the Group in the event that the Comparable Purchase Transactions is not available in the 12-Month Purchase Period. As confirmed by the management of the Target Group, the Target Group has not purchased any of the Products from independent third party suppliers in the last 12-Month Purchase Period.

Having considered (i) the nature of the Connected Purchase will be conducted in the ordinary course of business of the Enlarged Group; (ii) sufficient market information can be obtained by the Group via market research and interactions with other participants in the market; (iii) the history and experience of the Target Company in the business with Tongfang Kawasaki in the past, we are of the view that the mechanism of determining the pricing and payment terms for the Connected Purchase by reference principally to prevailing market price and practices is a fair mechanism. In light of the above, we consider that the terms of the Procurement Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

14. Basis of the proposed Annual Caps

Pursuant to the Procurement Agreement, the proposed Annual Caps for each of the three years ending 31 December 2014, 2015 and 2016 are set to be RMB150 million, RMB185 million and RMB230 million respectively.

As set out in the Letter from the Board, the proposed Annual Caps were determined based on (a) the Target Group's historical transaction amounts of purchases from the Controlling Shareholder (and its associates other than the Group) of RMB88.1 million and RMB68.0 million during the two financial years ended 31 December 2013 respectively; and (b) the Target Group's forecasted purchase amounts in heat pumps for the three years ending 31 December 2016. The growth rates were determined after considering the growth trend of the energy

LETTER FROM QUAM CAPITAL

management business, taking into account the increasing amount of raw materials used for the EMC and EPC projects under the contracts and signed letters of intent and favorable policies introduced in the energy management industry by the PRC government.

As advised by the management of the Target Company, the Target Company has signed certain letters of intent with its potential customers and the projects of which are believed to be commenced in the period of 2014 to 2017. As the Products are integral raw material components of the projects carried out by the Target Company in the EMC and EPC projects, the Target Company expected to purchase the Products for four of its potential projects in 2014 from the Controlling Shareholder and its associates (other than the Group). Based on the discussions of the projects team of the Target Group with the Target Group's clients on the scale and budgets of these new projects and historical project costing of similar projects and the price of similar Products completed in 2012 and 2013, the Company estimates that the amount of the Connected Purchases would be approximately RMB150 million in 2014. As advised by the management of the Target Group, it is expected to purchase the Products for seven of its potential projects in 2015 and five of its potential projects in 2016 and the amounts of the Connected Purchase would be approximately RMB180 million and RMB230 million in 2015 and 2016 respectively.

With reference to the favourable national policies in the PRC as set out below:

- (i) the 30% forecast annual growth in the EMC-based energy-saving service industry in the PRC as mentioned in 第十二個五年規劃 (the 12th Five-Year Plan*); and
- (ii) the release of (a) operating tax exemptions for energy management servicing companies in the PRC; (b) value added tax exemptions for building equipment owners; and (c) corporate tax exemptions for energy management servicing companies in the first three years of operations after they have signed up for the scheme and half the normal tax rate for the following three years, which have encouraged growth in the energy management industry and increased sales of energy-saving solutions,

we are of the view that there will be continuous increase in demand in the energy-saving market in the PRC as a result of increased awareness of efficiency of energy-saving and stimulated demand for energy-saving solutions in the PRC.

The proposed Annual Caps for the Connected Purchase for the two years ending 31 December 2015 and 2016, being RMB185 million and RMB230 million, representing an increase of approximately 23.3% and 24.3% from the respective Annual Caps of the preceding year. The proposed Annual Caps of 2015 and 2016 were determined based on, among other things, (i) the expectation that signed letters of intent and projects which are currently in discussion in relation to the EMC and EPC projects will be undertaken in 2015 to 2017; (ii) the expected purchase amounts in the Products by the Enlarged Group during 2015 and 2016 based on the aforesaid expectation; and (iii) the potential growth in the energy-saving industry in the PRC.

LETTER FROM QUAM CAPITAL

Having considered the basis and factors taken into account by the Company in determining the proposed Annual Caps as described above, we are of the view that the terms of the Procurement Agreement (together with the proposed Annual Caps) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

15. Takeovers Code implications and Whitewash Waiver

As at the Latest Practicable Date, the Controlling Shareholder and the Controlling Shareholder Concert Parties held 172,000,000 Shares, representing approximately 32.98% of equity interest in the Company. Upon Completion, 89,706,142 Consideration Shares will be issued to Resuccess, being a substantial Shareholder and an indirect wholly-owned subsidiary of the Controlling Shareholder, and 29,902,047 Consideration Shares will be issued to Valuworth, a party acting in concert with the Controlling Shareholder. Upon Completion, the interest in the Company to be held by the Controlling Shareholder and the Controlling Shareholder Concert Parties will increase from approximately 32.98% to approximately 45.48%. Accordingly, the Controlling Shareholder and the Controlling Shareholder Concert Parties, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the issued Shares and other equity securities of the Company not already owned or agreed to be acquired by them as a result of the issue and allotment of the Consideration Shares.

The Controlling Shareholder and the Controlling Shareholder Concert Parties and those who are involved in or interested in the Acquisition and the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Acquisition and the Whitewash Waiver. It is a condition precedent to completion of the Acquisition that the Whitewash Waiver is granted by the Executive.

Paragraph 3 of Schedule VI of the Takeovers Code provides that the Executive will not normally waive an obligation under Rule 26 if there occurs any disqualifying transaction for such a waiver. Disqualifying transactions include, i) a situation where the person seeking a waiver or any person acting in concert with him has acquired voting rights in the relevant company in the six months immediately prior to the announcement of the proposals but subsequent to negotiations, discussions or the reaching of understandings or agreements with the directors of such company in relation to the relevant proposal and ii) any acquisitions or disposals of voting rights are made by such persons in the period between the announcement of the proposals and the completion of the subscription.

Save for the entering into of the Sale and Purchase Agreement, the Controlling Shareholder and the Controlling Shareholder Concert Parties confirm that they have not acquired any voting rights in the Company or dealt with any Shares or options to subscribe for Shares or other Relevant Securities in the six-month-period before the announcement of the Company dated 17 April 2014 (being the date of the Sale and Purchase Agreement) and up to and including the Latest Practicable Date.

LETTER FROM QUAM CAPITAL

The Controlling Shareholder had made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it would grant the Whitewash Waiver subject to, among other things, (i) the approval of the Independent Shareholders on a vote taken by way of a poll at the EGM; and (ii) that the Controlling Shareholder and the Controlling Shareholder Concert Parties will not acquire or dispose of any voting rights in the Company between the date of the Announcement and Completion unless with the prior consent of the Executive. In the event that the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed.

Having considered (i) if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed; (ii) issue of new Shares to the Controlling Shareholder and Controlling Shareholder Concert Parties is the most appropriate means of financing the Acquisition; (iii) the fairness and reasonableness of the Issue Price as discussed above; and (iv) that the dilution in the shareholding interests of the Independent Shareholders in the Company upon completion of the Acquisition is acceptable, we are of the view that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

16. Listing Rules implications

Implication of the Acquisition under the Listing Rules

As one of the applicable percentage ratios for the Acquisition under Rule 14.07 of the Listing Rules is more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, one of the Vendors, Resuccess, is a substantial Shareholder and an indirect wholly-owned subsidiary of the Controlling Shareholder, which indirectly owns 75% of the equity interest in the Target Company. Therefore, Resuccess is a connected person of the Company under Rule 14A.11 of the Listing Rules. In addition, Mr. Fan, a non-executive Director, together with the Management Team, has the right to request the transfer to them of 100% of the equity interest in Team Thrive pursuant to a series of arrangements among the registered holder of the entire equity interest in Team Thrive, the Management Team led by Mr. Fan and other parties. As such, Team Thrive and Valuworth shall be regarded as associates of Mr. Fan and therefore connected persons of the Company under Rule 14A.11 of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

Implication of the Procurement Agreement under the Listing Rules

As at the Latest Practicable Date, the Controlling Shareholder, directly and indirectly through Resuccess, held 172,000,000 Shares, representing

LETTER FROM QUAM CAPITAL

approximately 32.98% of equity interest in the Company and therefore is a controlling Shareholder and a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Accordingly, the transactions between the Group and the Controlling Shareholder under the New Purchase Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios for the proposed Annual Caps in respect of the Procurement Agreement for the years ending 31 December 2014, 2015 and 2016 exceed 5% on an annual basis, the transactions contemplated under the Procurement Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

RECOMMENDATION

Having considered (i) the reasons for and benefits of the entering into of the Sale and Purchase Agreement; (ii) share price performance of the Shares during the Review Period; (iii) the Valuation Report on the Target Company; (iv) the dilution effect on the shareholding interests of existing Shareholders; (v) other financing alternatives available to the Group; (vi) the financial effects of the Acquisition; (vii) the reasons for and benefits of the entering into of the Procurement Agreement; and (viii) the basis of the proposed Annual Caps as mentioned above, we are of the opinion that the Procurement Agreement was entered into in the ordinary and usual course of business and the terms of the Sale and Purchase Agreement and the Procurement Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend (i) the Connected Transactions IBC to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the Procurement Agreement and the transactions contemplated thereunder.

LETTER FROM QUAM CAPITAL

The Acquisition is conditional upon the approval by the Independent Shareholders of the Whitewash Waiver at the EGM. If the Whitewash Waiver is not approved by the Independent Shareholders, the Acquisition will not proceed. Having taken into account our recommendation on the Acquisition above, we consider the terms of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Whitewash Waiver IBC to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolutions at the EGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Deputy Chief Executive Officer

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the consolidated results and financial information of the Group for the three years ended 31 December 2011, 2012 and 2013, details of which were extracted from the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013:

Three Year Financial Summary

	2011	2012	2013
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Consolidated income statement			
Revenue	97,513	124,209	148,713
Cost of sales	<u>(61,118)</u>	<u>(79,704)</u>	<u>(93,676)</u>
Gross profit	<u>36,395</u>	<u>44,505</u>	<u>55,037</u>
Other revenue	1,293	1,167	3,103
Other net (loss)/gain	(60)	36	(1,108)
Selling and distribution costs	(8,520)	(9,393)	(10,952)
Administrative and other operating expenses	(11,017)	(13,397)	(15,439)
Research and development expenses	(2,956)	(3,149)	(4,509)
Finance expenses	<u>(542)</u>	<u>(579)</u>	<u>(1,519)</u>
Profit before taxation	14,593	19,190	24,613
Income tax	<u>(2,777)</u>	<u>(3,981)</u>	<u>(5,786)</u>
Profit for the year	<u>11,816</u>	<u>15,209</u>	<u>18,827</u>
Profit attributable to:			
Equity holders of the company	10,445	13,392	17,105
Non-controlling interests	<u>1,371</u>	<u>1,817</u>	<u>1,722</u>
Profit for the year	<u>11,816</u>	<u>15,209</u>	<u>18,827</u>
Basic earnings per share (US\$)	0.027	0.027	0.033
Diluted earnings per share (US\$)	<u>0.026</u>	<u>0.027</u>	<u>0.030</u>

	2011 <i>US\$'000</i>	2012 <i>US\$'000</i>	2013 <i>US\$'000</i>
Non-current assets	33,757	46,120	73,828
Current assets	74,391	101,425	137,708
Current liabilities	<u>31,634</u>	<u>53,708</u>	<u>71,198</u>
Net current assets	<u>42,757</u>	<u>47,717</u>	<u>66,510</u>
Total assets less current liabilities	76,514	93,837	140,338
Non-current liabilities	5,786	9,333	44,162
Total equity attributable to equity shareholders of the company	65,013	77,902	94,619
Non-controlling interests	5,715	6,602	1,557
Total equity	<u>70,728</u>	<u>84,504</u>	<u>96,176</u>
Net assets per share (<i>Note</i>)	<u>0.15</u>	<u>0.16</u>	<u>0.18</u>
Financial ratios			
Cost to income ratio	62.7%	64.2%	63.0%
Pre-tax profit margin	15.0%	15.4%	16.6%
Return on equity	16.7%	18.0%	19.6%
Current ratio	<u>2.4</u>	<u>1.9</u>	<u>1.9</u>

Note: The calculation of net assets per share is based on the net assets of the Company of US\$96,176,000, US\$84,504,000, US\$70,728,000 and the number of ordinary shares of 521,520,000, 521,520,000, 485,200,000 as at 31 December 2013, 2012 and 2011, respectively.

There were no audit qualifications issued by the auditors of the Company for the three years ended 31 December 2011, 2012 and 2013.

There were no exceptional items for the three years ended 31 December 2011, 2012 and 2013.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Consolidated Income Statement

For the year ended 31 December 2013

(Expressed in United States dollars)

	<i>Note</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Revenue	3,4	148,713	124,209
Cost of sales		<u>(93,676)</u>	<u>(79,704)</u>
Gross profit		55,037	44,505
Other revenue	5	3,103	1,167
Other net (loss)/gain		(1,108)	36
Selling and distribution costs		(10,952)	(9,393)
Administrative and other operating expenses		(15,439)	(13,397)
Research and development expenses		<u>(4,509)</u>	<u>(3,149)</u>
Profit from operations		26,132	19,769
Finance costs	6(a)	<u>(1,519)</u>	<u>(579)</u>
Profit before taxation		24,613	19,190
Income tax	7(a)	<u>(5,786)</u>	<u>(3,981)</u>
Profit for the year		<u><u>18,827</u></u>	<u><u>15,209</u></u>
Profit attributable to:			
Equity shareholders of the Company		17,105	13,392
Non-controlling interests		<u>1,722</u>	<u>1,817</u>
Profit for the year		<u><u>18,827</u></u>	<u><u>15,209</u></u>
Earnings per share	11		
Basic (US\$)		0.033	0.027
Diluted (US\$)		<u>0.030</u>	<u>0.027</u>

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2013*

(Expressed in United States dollars)

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Profit for the year	18,827	15,209
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	<u>1,551</u>	<u>676</u>
Total comprehensive income for the year	<u><u>20,378</u></u>	<u><u>15,885</u></u>
Attributable to:		
Equity shareholders of the Company	18,878	13,942
Non-controlling interests	<u>1,500</u>	<u>1,943</u>
Total comprehensive income for the year	<u><u>20,378</u></u>	<u><u>15,885</u></u>

Consolidated Balance Sheet*At 31 December 2013*

(Expressed in United States dollars)

	<i>Note</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment	12	9,776	7,161
Intangible assets	13	21,553	16,953
Goodwill	14	15,554	16,257
Other financial assets	15	26,471	5,348
Deferred tax assets	24	474	401
		<u>73,828</u>	<u>46,120</u>
		-----	-----
Current assets			
Trading securities	17	1,823	-
Inventories	18	16,216	12,208
Trade and other receivables	19	65,665	47,888
Gross amounts due from customers for contract work	22	451	824
Cash and cash equivalents	20	53,553	40,505
		<u>137,708</u>	<u>101,425</u>
		-----	-----
Current liabilities			
Trade and other payables	21	55,090	44,052
Gross amounts due to customers for contract work	22	51	199
Loans and borrowings	23(b)	14,402	7,922
Obligations under finance leases		30	12
Income tax payable		1,625	1,523
		<u>71,198</u>	<u>53,708</u>
		-----	-----
Net current assets		<u>66,510</u>	<u>47,717</u>
		-----	-----
Total assets less current liabilities		<u>140,338</u>	<u>93,837</u>
		-----	-----

	<i>Note</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Non-current liabilities			
Loans and borrowings	23(b)	6,512	7,062
Obligations under finance leases		114	171
Deferred tax liabilities	25	1,965	2,100
Other non-current liabilities	26	35,571	–
		<u>44,162</u>	<u>9,333</u>
		-----	-----
NET ASSETS		<u>96,176</u>	<u>84,504</u>
CAPITAL AND RESERVES			
Share capital	27	38,121	38,121
Reserves		56,498	39,781
		<u>94,619</u>	<u>77,902</u>
Total equity attributable to equity shareholders of the Company		94,619	77,902
Non-controlling interests		<u>1,557</u>	<u>6,602</u>
TOTAL EQUITY		<u><u>96,176</u></u>	<u><u>84,504</u></u>

Consolidated Statement of Changes in Equity
For the year ended 31 December 2013
 (Expressed in United States dollars)

	Attributable to equity shareholders of the Company									
	Share capital	Statutory reserves	Translation reserve	Share-based compensation reserve	Capital reserve arising from changes in ownership interests in subsidiaries	Capital reserve arising from equity component of redeemable preference shares	Retained profits	Total	Non-controlling interests	Total equity
	Note 27(c)	Note 27(d)(i)	Note 27(d)(ii)	Note 27(d)(iii)	Note 27(d)(iv)					
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2012	33,786	2,524	1,640	1,320	4,739	-	21,004	65,013	5,715	70,728
Changes in equity for 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 and 1 January 2013	38,121	3,897	2,504	651	(294)	-	33,023	77,902	6,602	84,504
Changes in equity for 2013:										
Profit for the year	-	-	-	-	-	-	17,105	17,105	1,722	18,827
Other comprehensive income	-	-	1,773	-	-	-	-	1,773	(222)	1,551
Total comprehensive income for the year	-	-	1,773	-	-	-	17,105	18,878	1,500	20,378
Equity settled share-based transactions	-	-	-	795	-	-	-	795	-	795
Issuance of redeemable preference shares (note 26)	-	-	-	-	-	693	-	693	-	693
Repurchase of non-controlling interests	-	-	80	-	(3,729)	-	-	(3,649)	(6,545)	(10,194)
Appropriation to statutory reserves	-	1,779	-	-	-	-	(1,779)	-	-	-
Balance at 31 December 2013	38,121	5,676	4,357	1,446	(4,023)	693	48,349	94,619	1,557	96,176

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statements*For the year ended 31 December 2013*

(Expressed in United States dollars)

	<i>Note</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Operating activities			
Profit before taxation		24,613	19,190
Adjustments for:			
Depreciation	<i>6(c)</i>	1,234	913
Amortisation of intangible assets	<i>6(c)</i>	3,577	2,989
Impairment losses on trade and other receivables	<i>6(c)</i>	376	763
Finance costs	<i>6(a)</i>	1,519	579
Interest income	<i>5</i>	(953)	(38)
Net loss on disposal of property, plant and equipment		148	2
Fair value change on trading securities		197	–
Equity-settled share-based payment expenses	<i>6(b)</i>	795	411
Impairment of goodwill	<i>14</i>	461	–
Foreign exchange (gain)/loss		(324)	228
		<u>31,643</u>	<u>25,037</u>
(Increase)/decrease in inventories		(4,008)	2,599
Increase in trade and other receivables		(20,830)	(22,863)
Increase in trade and other payables		11,272	17,490
Change in gross amounts due from/to customers for contract work		225	(474)
Increase/(decrease) in deferred income		14	(87)
		<u>18,316</u>	<u>21,702</u>
Cash generated from operations		18,316	21,702
Income tax paid		(6,430)	(3,846)
		<u>11,886</u>	<u>17,856</u>
Net cash generated from operating activities		11,886	17,856
Investing activities			
Payments for the purchase of property, plant and equipment		(4,374)	(4,579)
Expenditure on purchase of intangible assets		(8,058)	(5,847)
Payment for Karamay construction contract	<i>15</i>	(18,040)	–
Proceeds from sale of property, plant and equipment		24	7
Proceeds from sale of intangible assets		2	177
Interest received		953	38
Payment for purchase of trading securities		(2,020)	–
		<u>(31,513)</u>	<u>(10,204)</u>
Net cash used in investing activities		(31,513)	(10,204)

	<i>Note</i>	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Financing activities			
Proceeds from issuance of shares		–	3,255
Repurchase of share options		(1,215)	–
Proceeds from issuance of redeemable preference shares		36,189	–
Proceeds from loans and borrowings		16,732	11,936
Repayment of loans and borrowings		(9,679)	(4,129)
Acquisition and repurchase of non-controlling interests		(7,646)	(5,775)
Other borrowing costs paid		(1,043)	(637)
		<u> </u>	<u> </u>
Net cash generated from financing activities		<u> 33,338 </u>	<u> 4,650 </u>
Net increase in cash and cash equivalents		13,711	12,302
Cash and cash equivalents at the beginning of the year		40,505	27,940
Effect of foreign exchange rate changes		<u> (663) </u>	<u> 263 </u>
Cash and cash equivalents at the end of the year	20	<u> 53,553 </u>	<u> 40,505 </u>

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 2013 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 except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Financial instruments classified as available-for-sale or trading securities (see note 2(f))
- Redeemable preference shares (see note 2(p))

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 31.

(c) Changes in accounting policies

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009–2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new or amended HKFRSs are discussed below:

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

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

HKFRS 10, Consolidated financial statements

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

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 16.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 28. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

The adoption of the amendments does not have any impact on the Group's financial statements because the Group has not made any retrospective restatement during the periods presented.

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

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

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

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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 cash flows 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 the non-controlling interests' 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 statement of profit or loss and the consolidated statement of profit or loss and other 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), 2(p) and 2(q), depending on the nature of liability.

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

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

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 joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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(v)(iv) and (v)(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 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. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of balance sheet at cost less impairment losses (see note 2(k)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(v)(iv) and 2(v)(v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss recognised in equity is reclassified 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)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

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
- Buildings situated on freehold land	10 to 20 years

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

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

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

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(x)). 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.

(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.

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

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements, 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;

- goodwill, and
- investments in subsidiaries, associates and joint ventures in the company's statement of balance sheet.

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 of disposal 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 of disposal (if measurable), 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.

(I) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

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

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

(m) Construction contracts

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

Construction contracts in progress at the end of the financial statement are recorded in the balance sheet 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) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group’s option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised at fair value if it is designated at fair value through profit or loss on initial recognition, or in accordance with the Group’s policy for interest-bearing borrowings set out in note 2(o) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(q) 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(u)(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.

(r) 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.

(s) 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 at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) Income tax

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

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

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

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

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

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

The carrying amount of a deferred tax asset is reviewed at the end of 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.

(u) 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 is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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(u)(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(u)(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(u)(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.

(v) 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 income 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.

(w) 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 measured.

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.

(x) 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.

(y) 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.

(z) 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 2012 and 2013 are as follows:

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Sales of goods	117,862	99,754
Provision of services	18,429	14,643
Contract revenue	12,422	9,812
	<u>148,713</u>	<u>124,209</u>

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.

(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 2012 and 2013 is set out below:

	BAS – PRC		BAS – North America		BAS – Europe		BAS – Other countries		CSS – PRC		FAS – PRC		EMS – PRC		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	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	52,793	47,732	28,203	27,822	14,362	11,513	11,462	6,974	19,316	16,771	725	372	21,852	13,025	148,713	124,209
Inter-segment revenue	6,759	6,156	378	323	-	-	3	-	-	-	-	-	-	-	7,140	6,479
Reportable segment revenue	59,552	53,888	28,581	28,145	14,362	11,513	11,465	6,974	19,316	16,771	725	372	21,852	13,025	155,853	130,688
Reportable segment profit	10,937	9,315	4,574	4,043	2,298	1,654	1,835	1,002	1,130	1,087	110	57	10,804	6,702	31,688	23,860
Finance costs	(503)	(176)	(431)	(171)	(585)	(232)	-	-	-	-	-	-	-	-	(1,519)	(579)
Depreciation and amortisation for the year	(896)	(619)	(2,142)	(2,113)	(1,091)	(823)	(51)	-	(291)	(193)	(11)	(4)	(329)	(150)	(4,811)	(3,902)

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

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Revenue		
Reportable segment revenue	155,853	130,688
Elimination of inter-segment revenue	<u>(7,140)</u>	<u>(6,479)</u>
Consolidated revenue	<u><u>148,713</u></u>	<u><u>124,209</u></u>
Profit		
Reportable segment profit	31,688	23,860
Elimination of inter-segment profits	<u>(36)</u>	<u>48</u>
Reportable segment profit derived from the Group's external customers	31,652	23,908
Depreciation and amortisation	(4,811)	(3,902)
Finance costs	(1,519)	(579)
Unallocated head office and corporate expenses	<u>(709)</u>	<u>(237)</u>
Consolidated profit before taxation	<u><u>24,613</u></u>	<u><u>19,190</u></u>

(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.

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Revenue derived from:		
PRC	94,686	77,900
United States	23,836	23,844
France	10,624	7,605
Canada	4,367	3,978
Switzerland	2,147	2,194
The Netherlands	521	535
Other countries	<u>12,532</u>	<u>8,153</u>
	<u><u>148,713</u></u>	<u><u>124,209</u></u>

5 OTHER REVENUE

	2013 US\$'000	2012 US\$'000
Government grants (<i>note</i>)	1,984	1,060
Interest income	953	38
Others	166	69
	<u>3,103</u>	<u>1,167</u>

Note:

In 2013, 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 of US\$1,018,000 (2012: US\$1,060,000) 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.

In 2013, one of the PRC subsidiaries of the Company is entitled to receive a government subsidy of US\$966,000 (2012: Nil) in relation to energy management contract.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2013 US\$'000	2012 US\$'000
(a) Finance costs		
Interest on loans and borrowings wholly repayable within five years	1,003	575
Other financial costs	2	4
Net change in fair value of redeemable preference shares (<i>note 26</i>)	514	–
	<u>1,519</u>	<u>579</u>
(b) Staff costs		
Salaries and other benefits	13,763	11,038
Contributions to defined contribution retirement schemes	671	634
Equity settled share-based payment expenses (<i>note 24</i>)	795	411
	<u>15,229</u>	<u>12,083</u>

Staff costs include directors' and senior management's remuneration (notes 8 and 30(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 2013 (2012: 20%). Contributions to the Scheme vest immediately.

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

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

	2013 US\$'000	2012 US\$'000
(c) Other items		
Cost of inventories (<i>note 18(b)</i>)	92,928	79,347
Amortisation of intangible assets	3,577	2,989
Depreciation	1,234	913
Impairment losses on trade and other receivables	376	763
Operating lease charges in respect of:		
– motor vehicles, plant and machinery	550	580
– properties	676	495
Auditors' remuneration	698	575
	<u> </u>	<u> </u>

7 INCOME TAX

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

	2013 US\$'000	2012 US\$'000
Current tax		
Provision for the year	5,918	4,297
Under provision in respect of prior years	<u>48</u>	<u>20</u>
	5,966	4,317
Deferred tax		
Origination and reversal of temporary differences (<i>note 25(a)</i>)	<u>(180)</u>	<u>(336)</u>
	<u>5,786</u>	<u>3,981</u>

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

	Note	2013 US\$'000	2012 US\$'000
Profit before taxation		24,613	19,190
Notional tax expense calculated at the corporate tax rate of the Company	(i)	4,196	3,263
Effect of rate differential of entities operating in different tax jurisdictions	(ii)	2,632	1,971
Tax effect on non-deductible expenses		709	365
Tax effect of non-taxable income		(212)	(159)
Effect of tax concession	(iii)	(2,367)	(1,929)
Tax effect of unused tax losses not recognised		780	450
Under provision in prior years		48	20
Actual income tax expense		<u>5,786</u>	<u>3,981</u>

Notes:

(i) The Company is subject to Singapore corporate income tax at 17% for the year ended 31 December 2013 (2012:17%). No provision for Singapore income tax was made because the Company sustained tax losses for the years ended 31 December 2012 and 2013.

(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 2013 (2012: 27%). Corporate income tax comprises 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 2012 and 2013.

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 September 2014.

(iv) The Group is not subject to Hong Kong corporate income tax during the years ended 31 December 2012 and 2013.

8 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2012					Total US\$'000
	Directors' fees	Salaries, allowances and benefits in-kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	
	US\$'000	US\$'000	US\$'000	US\$'000	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 (<i>note (i)</i>)	17	-	-	-	-	17
Liu Tianmin	26	-	-	-	-	26
David Chow Dah-Jen (<i>note (ii)</i>)	9	-	-	-	-	9
Independent non-executive directors						
Fan Ren Da Anthony	40	-	-	-	-	40
Chia Yew Boon	40	-	-	-	-	40
Chen Hua	32	-	-	-	-	32
	<u>256</u>	<u>259</u>	<u>400</u>	<u>9</u>	<u>72</u>	<u>996</u>

	Year ended 31 December 2013					
	Directors' fees	Salaries, allowances and benefits in-kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Executive directors						
Zhao Xiaobo	-	115	273	-	61	449
Seah Han Leong	-	143	273	10	61	487
Non-executive directors						
Lu Zhicheng	36	-	-	-	77	113
Li Jisheng	26	-	-	-	5	31
Ng Koon Siong	30	-	-	-	-	30
Liu Tianmin	26	-	-	-	-	26
Independent non-executive directors						
Fan Ren Da Anthony	40	-	-	-	-	40
Chia Yew Boon	40	-	-	-	-	40
Chen Hua	32	-	-	-	-	32
	<u>230</u>	<u>258</u>	<u>546</u>	<u>10</u>	<u>204</u>	<u>1,248</u>

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors for the years ended 31 December 2012 and 2013, 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 2012 and 2013 are as follows:

	2013 US\$'000	2012 US\$'000
Salaries and other benefits	681	695
Discretionary bonuses	529	497
Share-based payments	86	33
	<u>1,296</u>	<u>1,225</u>

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

	2013	2012
	<i>Number of Individuals</i>	<i>Number of individuals</i>
HKD 2,500,001 – HKD 3,000,000	1	2
HKD 3,000,001 – HKD 3,500,000	1	–
HKD 3,500,001 – HKD 4,500,000	1	1
	<u>1</u>	<u>1</u>

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of US\$4,390,000 (2012: US\$2,919,000), which has been dealt with in the financial statements of the Company.

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US\$17,105,000 (2012: US\$13,392,000) and the weighted average number of ordinary shares of 521,520,000 (2012: 501,519,123) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2013	2012
	<i>Number of shares</i>	<i>Number of shares</i>
Issued ordinary shares at 1 January	521,520,000	485,200,000
Effect of exercise of Pre-IPO Share Option Scheme	–	16,319,123
	<u>521,520,000</u>	<u>501,519,123</u>
Weighted average number of ordinary shares at 31 December	<u>521,520,000</u>	<u>501,519,123</u>

(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\$16,142,000 (2012: US\$13,392,000) and the weighted average number of ordinary shares of 544,719,359 (2012: 501,519,123) in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted):

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Profit attributable to ordinary equity shareholders	17,105	13,392
Diluted effects of redeemable preference shares	(963)	–
	<u>16,142</u>	<u>13,392</u>

(ii) Weighted average number of ordinary shares (diluted):

	2013 <i>Number of shares</i>	2012 <i>Number of Shares</i>
Weighted average number of ordinary shares at 31 December	521,520,000	501,519,123
Effect of deemed issue of ordinary shares under the Company's option scheme for nil consideration (<i>note 24(c)(d)</i>)	23,199,359	–
	<u>544,719,359</u>	<u>501,519,123</u>

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 and buildings held for own use US\$'000	Construction in progress US\$'000	Total US\$'000
Cost:								
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
At 1 January 2013	1,227	623	2,344	1,270	585	1,147	2,499	9,695
Additions	37	428	530	611	63	24	2,681	4,374
Transfer of CIP	-	-	-	-	-	5,093	(5,093)	-
Disposals	(712)	(347)	(653)	(473)	-	-	-	(2,185)
Exchange adjustments	38	(14)	(62)	(8)	14	(236)	(87)	(355)
At 31 December 2013	590	690	2,159	1,400	662	6,028	-	11,529
Accumulated depreciation:								
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
At 1 January 2013	567	239	1,166	448	114	-	-	2,534
Charge for the year	198	113	406	265	74	178	-	1,234
Written back on disposal	(708)	(246)	(624)	(435)	-	-	-	(2,013)
Exchange adjustments	9	1	(22)	13	3	(6)	-	(2)
At 31 December 2013	66	107	926	291	191	172	-	1,753
Net book value:								
At 31 December 2012	660	384	1,178	822	471	1,147	2,499	7,161
At 31 December 2013	524	583	1,233	1,109	471	5,856	-	9,776

As at 31 December 2013, the net book value of computers and machinery held under finance leases of the Group was US\$20,862 (2012: US\$36,981).

As at 31 December 2013, certain items of property, plant and equipment with net book value of US\$7,024,966 (2012: US\$4,519,272) have been pledged as securities for the loans and borrowings (note 23(c)).

As at 31 December 2013, the land held for own use of the Group with net book value of US\$1,097,000 (2012: US\$1,147,000) was a freehold land outside Hong Kong.

13 INTANGIBLE ASSETS

The Group

	Trade name <i>US\$'000</i>	Patents and technology know-how <i>US\$'000</i>	Customer relationship <i>US\$'000</i>	Non-compet agreements <i>US\$'000</i>	Total <i>US\$'000</i>
Cost:					
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
At 1 January 2013	2,737	16,522	2,063	422	21,744
Additions through internal development	–	7,970	88	–	8,058
Disposals	–	(1,038)	–	–	(1,038)
Exchange adjustments	(65)	313	57	19	324
At 31 December 2013	2,672	23,767	2,208	441	29,088
Accumulated amortisation:					
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
At 1 January 2013	–	3,662	707	422	4,791
Charge for the year	–	3,361	216	–	3,577
Written back on disposals	–	(1,036)	–	–	(1,036)
Exchange adjustments	–	161	23	19	203
At 31 December 2013	–	6,148	946	441	7,535
Net book value:					
At 31 December 2012	2,737	12,860	1,356	–	16,953
At 31 December 2013	2,672	17,619	1,262	–	21,553

14 GOODWILL

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Cost and carrying value:		
At 1 January	16,257	15,914
Impairment	(461)	–
Exchange adjustments	(242)	343
	<u>15,554</u>	<u>16,257</u>
At 31 December	<u>15,554</u>	<u>16,257</u>

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	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
BAS-Canada	7,940	9,014
BAS-France	7,614	7,243
	<u>15,554</u>	<u>16,257</u>

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% (2012: 3%). The cash flows are discounted using a discount rate of 17% and 15% (2012: 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.

15 OTHER FINANCIAL ASSETS

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Long-term receivables	28,362	6,150
Less: current portion of long-term receivables	(1,891)	(802)
	<u>26,471</u>	<u>5,348</u>

At 31 December 2013, long-term receivables included receivables of Karamay construction contract of US\$18,040,000 (2012: Nil). Karamay construction contract ("Karamay BT contract") is a construction contract entered into among Karamay Construction Management Co., Ltd. ("Karamay Construction"), Tsinghua Tongfang Co., Ltd ("Tongfang") and Technovator Beijing in 2013. Pursuant to Karamay BT contract, Karamay Construction engaged Tongfang as the contractor to carry out the construction contract with the finance and major equipment supply provided by Technovator Beijing. The estimated total financing provided by Technovator Beijing is approximately RMB180 million. Karamay Construction should repay Technovator Beijing by five annual instalments, with an investment return charged at 140% of the then prevailing lending

interest rate in respect of loans for the same term as quoted by the People's Bank of China. Karamay Construction didn't grant any security to Technovator Beijing.

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

16 INVESTMENTS IN SUBSIDIARIES

	2013 US\$'000	2012 US\$'000
Unlisted investments, at cost	32,012	20,323
Fair value of share options granted to employees of a subsidiary	1,049	477
	<u>33,061</u>	<u>20,800</u>

The following list contains the particulars of the Company's principal subsidiaries as at 31 December 2013.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and fully paid up share/ registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Technovator Beijing (wholly foreign-owned enterprise)	Beijing, PRC 7 August 2006	USD 20,000,000	100%	100%	-	Design, manufacturing and marketing of building automation solutions
Distech Controls	Québec, Canada 5 January 1995	CAD 14,333,891	67.7%*	67.7%	-	Design, manufacturing and marketing of building automation solutions
Distech U.S.	Delaware, US 17 February 2010	USD 5,154,323	67.7%	-	100%	Investment holding
Comtec	Lyon, France 27 July 1994	EUR 623,240	67.7%	-	100%	Design, manufacturing, sales and marketing of building automation solutions
Acelia	Lyon, France 27 February 1996	13,000 shares of EUR 10 each	67.7%	-	100%	Sales and marketing of building automation solutions
Distech France	Lyon, France 24 February 2010	EUR 4,228,661	67.7%	-	100%	Investment holding
Distech Controls Facility Solutions (previously known as e2 Solutions)	Ontario, Canada 30 October 2011	CAD 1,468,049	33.9%	-	50.1%	Management and monitoring services on energy-savings

* At 31 December 2013, the Company's voting right in Distech Controls is 44.9% but maintains control over Distech Controls as the Company appoints the majority of its board of directors.

The following table lists out the information relating to Distech Controls Inc., the only subsidiary of the Group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Ownership interests held by NCI	32.3%	36.2%
Voting rights held by NCI	55.1%	36.2%
Current assets	34,473	17,781
Non-current assets	25,793	23,494
Current liabilities	(11,906)	(14,204)
Non-current liabilities	(43,635)	(8,838)
Net assets	4,725	18,233
Carrying amount of NCI	1,526	6,600
Revenue	53,336	45,787
Profit for the year	5,525	4,360
Total comprehensive income	6,239	4,726
Profit allocated to NCI	2,015	1,711
Dividend paid to NCI	–	–
Net cash generated from operating activities	10,682	9,045
Net cash used in investing activities	(8,540)	(4,720)
Net cash (used)/generated from financing activities	13,541	(1,702)

17 TRADING SECURITIES

The trading securities are equity securities at fair value listed in Hong Kong.

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2013 <i>US\$'000</i>	2012 <i>US\$'000</i>
Raw materials	3,070	4,728
Work in progress	550	399
Finished goods	12,596	7,081
	<u>16,216</u>	<u>12,208</u>

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	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Carrying amount of inventories sold	92,854	79,224
Write-down of inventories	74	123
	<u>92,928</u>	<u>79,347</u>

As at 31 December 2013, certain inventories with carrying value of US\$2,220,386 (2012: US\$2,417,000) have been pledged as securities for the loans and borrowings (note 23(c)).

19 TRADE AND OTHER RECEIVABLES

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Trade debtors due from related parties (<i>note 30(c)</i>)	4,156	5,927
Other trade debtors and bills receivable	56,508	40,684
Less: Allowance for doubtful debts (<i>note 19(b)</i>)	<u>(1,797)</u>	<u>(1,479)</u>
	58,867	45,132
Other receivables	<u>1,243</u>	<u>847</u>
Loans and receivables	60,110	45,979
Deposits and prepayments	<u>5,555</u>	<u>1,909</u>
	<u>65,665</u>	<u>47,888</u>

At 31 December 2013, certain trade debtors and bills receivable with carrying value US\$7,146,404 (2012: US\$7,892,000) have been pledged as securities for the loans and borrowings (note 23(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	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Current	39,073	29,752
Less than 1 month past due	4,690	3,923
More than 1 month but less than 3 months past due	3,449	1,860
More than 3 months but less than 12 months past due	8,498	8,347
More than 12 months past due	3,157	1,250
	19,794	15,380
	58,867	45,132

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 28(a).

(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	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	1,479	735
Impairment loss recognised	376	763
Uncollectible amounts written off	(114)	(27)
Exchange adjustment	56	8
At 31 December	1,797	1,479

At 31 December 2013, 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 19(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.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Deposit with banks and other financial institutions	62	62	62	62
Cash at bank and in hand	53,491	40,443	2,221	11,677
Cash and cash equivalents	<u>53,553</u>	<u>40,505</u>	<u>2,283</u>	<u>11,739</u>

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables due to related parties (note 30(c))	360	451	752	919
Other trade and bills payable	41,209	32,305	146	330
Other payables and accruals	41,569	32,756	898	1,249
Financial liabilities measured at amortised cost	11,121	10,806	1,677	1,272
Receipts in advance	52,690	43,562	2,575	2,521
Deferred income	2,370	474	-	-
	30	16	-	-
	<u>55,090</u>	<u>44,052</u>	<u>2,575</u>	<u>2,521</u>

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	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
By date of invoice:				
Within 3 months	35,509	28,966	48	143
More than 3 months but within 6 months	1,980	1,849	18	14
More than 6 months but within 12 months	2,592	410	30	1,092
More than 12 months	1,488	1,531	802	-
	<u>41,569</u>	<u>32,756</u>	<u>898</u>	<u>1,249</u>

22 GROSS AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	The Group	
	2013 US\$'000	2012 US\$'000
Direct costs incurred to date on contract plus attributable profits less recognised losses	11,661	17,715
Less: Progress payments received	<u>(11,210)</u>	<u>(16,891)</u>
Gross amounts due from customers for contract work	<u>451</u>	<u>824</u>
Direct costs incurred to date on contract plus attributable profits less recognised losses	144	7,794
Less: Progress payments received	<u>(195)</u>	<u>(7,993)</u>
Gross amounts due to customers for contract work	<u>(51)</u>	<u>(199)</u>

23 LOANS AND BORROWINGS

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

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Secured bank overdrafts	74	84
Bank loans		
– Secured	6,604	9,450
– Unsecured	14,059	4,954
	<u>20,737</u>	<u>14,488</u>
Other borrowings	177	496
	<u>20,914</u>	<u>14,984</u>

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

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year or on demand	14,402	7,922
After 1 year but within 2 years	913	5,010
After 2 years but within 5 years	834	904
After 5 years	4,765	1,148
	<u>6,512</u>	<u>7,062</u>
	<u>20,914</u>	<u>14,984</u>

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

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Banking facilities		
– Secured	7,492	12,641
– Unsecured	62,455	8,532
	<u>69,947</u>	<u>21,173</u>

At 31 December 2013, the facilities were utilised to the extent of US\$18,270,230 (2012: US\$14,563,246).

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

		The Group	
		2013	2012
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	12	7,025	4,519
Inventories	18(b)	2,220	2,417
Trade debtors and bills receivable	19	7,146	7,892
		16,391	14,828
		16,391	14,828

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, 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 28(b). As at 31 December 2013 none of the covenants relating to drawn down facilities had been breached (2012: Nil).

24 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	<u>36,320,000</u>		

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

	2013		2012	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	NIL	–	HK\$0.695	36,320,000
Subdivision of shares during the year	–	–	–	–
Exercised during the year	NIL	–	HK\$0.695	(36,320,000)
Outstanding at the end of the year	<u>NIL</u>	<u>–</u>	<u>–</u>	<u>–</u>
Exercisable at the end of the year	<u>NIL</u>	<u>–</u>	<u>–</u>	<u>–</u>

The closing share price at the date of exercise for the share option exercised during 2012 was HK\$1.16. All share option under Pre-IPO Share option scheme was exercised.

(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:			
– 27 May 2008	1,315,000	20% per annum	5 years
– 8 September 2009	140,000	20% per annum	5 years
– 10 March 2010	260,000	20% per annum	5 years
– 19 January 2011	135,000	20% per annum	5 years
– 19 July 2011	<u>100,000</u>	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	<u>200,000</u>	33% per annum	3 years
Total share options granted	<u><u>2,300,000</u></u>		

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

	2013		2012	
	Weighted Average exercise price CAD \$	Number of options	Weighted Average exercise price CAD \$	Number of options
Outstanding at the beginning of the year	0.60	1,750,000	0.60	1,770,000
Repurchased and cancelled during the year	0.60	(587,500)	–	–
Forfeited during the year	0.60	(9,000)	0.60	(20,000)
Outstanding at the end of the year	<u>0.60</u>	<u>1,153,500</u>	<u>0.60</u>	<u>1,750,000</u>
Exercisable at the end of the year	<u>0.60</u>	<u>862,500</u>	<u>0.60</u>	<u>1,138,333</u>

No options were exercised during the years ended 31 December 2012 and 2013.

The options outstanding at 31 December 2013 had an exercisable price of CAD\$0.60 (2012: CAD\$0.60) and a weighted average remaining contractual life of 0.71 years (2012: 1.07 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%

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 9,000 options granted to the employees have been forfeited during 2013 (2012: 20,000 options).

(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	<u>48,500,000</u>		

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

	2013		2012	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	HK\$1.15	48,500,000	–	–
Granted during the year	–	–	HK\$1.15	48,500,000
Outstanding at the end of the year	<u>HK\$1.15</u>	<u>48,500,000</u>	<u>HK\$1.15</u>	<u>48,500,000</u>
Exercisable at the end of the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The options outstanding at 31 December 2013 had an exercise price of HK\$1.15 (2012: HK\$1.15) and weighted average remaining contractual life of 3.56 years (2012: 4.56 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 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.

(d) Share Option Scheme 2013

The Company has a share option scheme (“Share Option Scheme 2013”) which was adopted on 5 September 2013 (“the date of grant”) whereby the directors of the Company are authorised, at their discretion, to invite directors and employees of the Group, suppliers and other individuals, to take up options to subscribe for a total of 52,100,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK\$3.06 per Share, which represents the higher of (1) the closing price of HK\$3.06 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\$2.91 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 2013, the options granted to directors, employees and other individuals 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 2014 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 2015. The options granted to the suppliers of goods or service shall have an exercisable period of 5 years from the date of grant and 100% of the total number of options granted will be vested after the second anniversary of the date of grant conditional upon the price per share equal to or exceeding 150% of the exercise price.

(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 5 September 2013	3,500,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	3,500,000	3 years service and meeting 2015 profit target	5 years
Options granted to management and employees			
– on 5 September 2013	5,200,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	5,200,000	3 years service and meeting 2015 profit target	5 years

	Number of options	Vesting conditions	Contractual life of options
Options granted to suppliers of goods or services			
– on 5 September 2013	1,800,000	2 years and meeting the price per share equal to or exceeding 150% of the exercise price	5 years
Options granted to other individuals			
– on 5 September 2013	16,450,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	16,450,000	3 years service and meeting 2015 profit target	5 years
Total share options granted	<u>52,100,000</u>		

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

	2013		2012	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	HK\$3.06	52,100,000	NIL	–
Outstanding at the end of the year	HK\$3.06	52,100,000	NIL	–
Exercisable at the end of the year	–	–	–	–

The options outstanding at 31 December 2013 had an exercise price of HK\$3.06 (2012: Nil) and weighted average remaining contractual life of 4.68 years (2012: Nil).

(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	
– Options granted to directors, employees and other individuals	HK\$0.32
– Options granted to suppliers of goods or services	HK\$1.04
Share price	HK\$3.06
Exercise price	HK\$3.06
Expected volatility	45.30%
Option life	5 years
Expected dividends	0%
Risk-free interest rate	1.043%

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 granted to directors, employees and other individuals were 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. Share options granted to suppliers of goods or services were under market condition. The condition has been taken into account in the grant date fair value measurement of the services received.

25 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 2012	45	1,419	1,196	(247)	(150)	(195)	(65)	2,003
Charged/(credited) to the 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	<u>58</u>	<u>1,240</u>	<u>1,085</u>	<u>(290)</u>	<u>(162)</u>	<u>(122)</u>	<u>(110)</u>	<u>1,699</u>
At 1 January 2013	58	1,240	1,085	(290)	(162)	(122)	(110)	1,699
Charged/(credited) to the consolidated income statement (note 7(a))	7	(158)	(259)	(75)	1	122	182	(180)
Exchange adjustments	-	46	(59)	(13)	-	-	(2)	(28)
At 31 December 2013	<u>65</u>	<u>1,128</u>	<u>767</u>	<u>(378)</u>	<u>(161)</u>	<u>-</u>	<u>70</u>	<u>1,491</u>

	The Group	
	2013	2012
	US\$'000	US\$'000
Represented by:		
Deferred tax assets	(474)	(401)
Deferred tax liabilities	1,965	2,100
	<u>1,491</u>	<u>1,699</u>

(b) Deferred tax assets not recognised

At 31 December 2013, in accordance with the accounting policy set out in note 2(t), the Company did not recognise deferred tax assets in respect of unused tax losses of US\$4,911,000 (2012: US\$2,829,000) and the Group did not recognise deferred tax assets in respect of unused tax losses of US\$6,750,000 (2012: US\$2,842,000), 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 unrecognised tax losses of US\$1,839,000 will not expire until after 2018.

(c) Deferred tax liabilities not recognised

At 31 December 2013, 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\$58,229,000 (2012: US\$39,894,000), 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.

26 OTHER NON-CURRENT LIABILITIES

At 31 December 2013, the balance represents the liability component of the redeemable preference shares issued by Distech Controls, designated at fair value through profit or loss.

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Issuance of redeemable preference shares	38,737	–
Amount classified as equity	(693)	–
Fair value adjustment charged to profit and loss	514	–
Foreign currency translation	(2,987)	–
	<u>35,571</u>	<u>–</u>

During 2013, 14,452,105 redeemable preference shares were issued by Distech Controls at total consideration of CAD\$38,000,000 approximately (equivalent to US\$38,737,000). The redeemable preference shares are convertible into 14,452,105 common shares of Distech Controls at the option of the holder or mandatorily if the shares of Distech Controls are listed on a stock exchange subject to certain conditions set out in the subscription agreement (“qualified listing”). If a qualified listing does not happen within 5 years, the redeemable preference shares are redeemable at the option of the holder at higher of (i) an amount equal to the highest price paid for any participating share of Distech Controls in the two fiscal years preceding the holder’s request for redemption in the context of any issuance by Distech Controls or any sale by a holder thereof; (ii) the fair market value of the redeemable preference shares; and (iii) two times the subscription price per such redeemable preference shares plus all accrued and unpaid dividends thereon.

The redeemable preference shares were split into liability and equity components of CAD\$37,320,000 (equivalent to US\$38,044,000) and CAD\$680,000 (equivalent to US\$693,000) respectively upon initial recognition by recognizing the liability component at its fair value and attributing to the equity component the residual amount. The liability component was subsequently measured at fair value.

The fair values of the redeemable preference shares were valued by an independent professional valuer, American Appraisal China Limited, based on the Probability Weighted Expected Return Method.

27 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
	<i>Note 27(c)</i>	<i>Note 27(d)(iii)</i>		
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>38,121</u>	<u>247</u>	<u>(7,718)</u>	<u>30,650</u>
At 1 January 2013	38,121	247	(7,718)	30,650
Equity settled share-based transactions	–	877	–	877
Profit for the year	–	–	3,493	3,493
At 31 December 2013	<u>38,121</u>	<u>1,124</u>	<u>(4,225)</u>	<u>35,020</u>

(b) **Dividends**

The Company has not distributed any dividends during the years ended 31 December 2011, 2012 and 2013.

(c) **Share capital**

	2013		2012	
	Number of shares	Amounts <i>US\$'000</i>	Number of shares	Amounts <i>US\$'000</i>
Ordinary shares, issued and fully paid:				
At 1 January	521,520,000	38,121	485,200,000	33,786
Shares issued under Pre-IPO Share Option Scheme	–	–	36,320,000	4,335
At 31 December	<u>521,520,000</u>	<u>38,121</u>	<u>521,520,000</u>	<u>38,121</u>

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) 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 and 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(s)(ii).

- (ii) Terms of unexpired and unexercised share options under the Pre-IPO Share Option Scheme and Share Option Scheme 2012 and 2013 at the balance sheet dates are as follows:

Exercise period	Exercise price	2013	Exercise price	2012
		Number of options		Number of options
23 July 2014 to 23 July 2017	HK\$1.15	24,250,000	HK\$1.15	24,250,000
23 July 2015 to 23 July 2017	HK\$1.15	24,250,000	HK\$1.15	24,250,000
5 September 2015 to 5 September 2018	HK\$3.06	26,950,000	-	-
5 September 2016 to 5 September 2018	HK\$3.06	25,150,000	-	-
		<u>100,600,000</u>		<u>48,500,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24.

(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(w).

(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(s)(ii).

(iv) *Capital reserve arising from changes in ownership interests in subsidiaries*

Capital reserve arising from changes in ownership interests in subsidiaries is resulted from transactions with equity holders in their capacity as equity holders. The balance comprises capital reserve movements arising from difference between fair value of consideration paid and the amount by which the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiary. For the year ended 31 December 2013, Distech Controls repurchased common shares from non-controlling shareholders for a total consideration of US\$10,194,000.

(v) *Distributable reserves*

The Company does not have reserves available for distribution to equity shareholders of the Company at 31 December 2012 and 2013.

(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 2013, the amount of capital employed was US\$117,090,000 (2012: US\$99,488,000).

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.

28 **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 2013, 5.4% (2012: 13.8%) and 19.3% (2012: 17.7%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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 19.

(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:

	2013				Total US\$'000	Balance sheet carrying amount US\$'000
	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		
Trade and other payables measured at amortised costs	52,690	-	-	-	52,690	52,690
Loans and borrowings	15,732	1,088	1,167	4,765	22,752	20,914
Obligations under finance leases	31	31	84	-	146	144
Redeemable preference shares	-	-	71,142	-	71,142	35,571
	<u>68,453</u>	<u>1,119</u>	<u>72,393</u>	<u>4,765</u>	<u>146,730</u>	<u>109,319</u>
	2012				Total US\$'000	Balance sheet carrying amount US\$'000
	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		
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
	<u>51,917</u>	<u>5,207</u>	<u>1,000</u>	<u>1,174</u>	<u>59,298</u>	<u>58,729</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from cash at bank, deposits with banks, interest bearing long-term receivables, 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:

	2013		2012	
	Effective interest rate %	Amounts US\$'000	Effective interest rate %	Amounts US\$'000
Fixed rate instruments:				
Loans and borrowings	4.23	256	4.01	587
Obligations under finance leases	4.13	<u>144</u>	4.02	<u>183</u>
		<u>400</u>		<u>770</u>
		-----		-----
Variable rate instruments:				
Loans and borrowings	5.29	20,658	4.86	14,397
Less: interest bearing long-term receivables	8.96	<u>(18,040)</u>	-	<u>-</u>
		<u>2,618</u>		<u>14,397</u>
		-----		-----
Total net borrowings		<u>3,018</u>		<u>15,167</u>
		=====		=====
Fixed rate borrowings as a percentage of total net borrowings		<u>13.3%</u>		<u>5.1%</u>
		=====		=====

(ii) *Sensitivity analysis*

At 31 December 2013, 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\$20,000 (2012: US\$111,000).

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 2012.

(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.

	2013		
	Exposure to foreign currencies		
	(expressed in US\$)		
	Euros	United States Dollars	Hong Kong Dollars
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and other receivables	5,040	5,767	28
Cash and cash equivalents	1,154	9,353	479
Trade and other payables	(6,715)	(2,948)	(210)
Net exposure arising from recognised assets and liabilities	<u>(521)</u>	<u>12,172</u>	<u>297</u>
	2012		
	Exposure to foreign currencies		
	(expressed in US\$)		
	Euros	United States Dollars	Hong Kong Dollars
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>327</u>	<u>4,634</u>	<u>6,566</u>

(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.

	2013		2012	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits <i>US\$'000</i>	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits <i>US\$'000</i>
Euros	5% (5)%	(12) 12	5% (5)%	3 (3)
United States Dollars	5% (5)%	111 (111)	5% (5)%	59 (59)
Hong Kong Dollars	5% (5)%	12 (12)	5% (5)%	272 (272)

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 2012.

(e) **Fair values**

(i) *Financial assets and liabilities measured at fair value*

Fair valued hierarchy

The following table presents the fair value of financial instruments measured at the balance sheet dates on a recurring loans, categorised into the three level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team headed by the chief financial officer who is responsible for engaging external valuers to perform valuations for the financial instruments, including Level 1 trading securities and liability component in redeemable preference shares which are categorised into Level 3 of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by the external valuers at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

	Fair value at 31 December 2013 US\$'000	Fair value measurements as at 31 December 2013 categorised into		
		Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Group				
Recurring fair value measurements				
Assets:				
Trading securities	1,823	1,823	–	–
Liabilities:				
Other non-current liabilities	35,571	–	–	35,571

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Liability component in redeemable preference shares at fair value through profit or loss	Probability weighted equity value allocation	Expected volatility	30.09% for liquidation 29.45% for redemption

(i) *Financial assets and liabilities measured at fair value (Continued)*

The fair value of liability component in redeemable preference shares is determined using Black-Scholes Option Pricing Model and discounted cash flow. The significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is negatively correlated to the expected volatility. For the year ended 31 December 2013, it is estimated that with all other variables held constant, an increase in the expected volatility by 1% would have increased the Group's net profit by US\$97,000.

Fair value of preference shares and assumptions

Discount rate	17%
Company specific risk in weighted average cost of capital ("WACC")	1.5%
Debt/equity ratio assumed in WACC	10%
Terminal year growth	3%

The movement during the period in the balance of these Level 3 fair value measurements is as follows:

	Group 2013 \$'000
Liability component of redeemable preference shares designated at fair value through profit or loss:	
At 1 January	–
Initial recognition	38,044
Fair value adjustment charged to profit and loss	514
Foreign currency translation	<u>(2,987)</u>
At 31 December	<u><u>35,571</u></u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u><u>514</u></u>

(ii) *Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair value as at 31 December 2013.

29 COMMITMENTS

(a) Capital commitments

The Group has no material capital commitments at 31 December 2013 (2012: US\$4,300,000).

(b) Operating lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year	943	1,021
After 1 year but within 5 years	<u>1,649</u>	<u>1,458</u>
	<u><u>2,592</u></u>	<u><u>2,479</u></u>

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 2012 and 2013.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the years ended 31 December 2012 and 2013, 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)

Guangdong Tongfang Lighting Co., Ltd.* (廣東同方照明有限公司)

Tongfang Health Technology Co., Ltd.* (同方健康科技(北京)有限公司)

Advanced System Development Co., Ltd.* (同方鼎欣信息技術有限公司)

* 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 2013 and is a controlling shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Other related parties listed above are subsidiaries of Tongfang.

(b) Significant related party transactions

Particulars of significant related party transactions during the years ended 31 December 2012 and 2013 are as follows:

	2013 US\$'000	2012 US\$'000
Sales to Tongfang and its subsidiaries	21,576	13,801
Purchases from Tongfang and its subsidiaries	2,463	1,414
Office rental expenses paid to Tongfang Co., Ltd.	302	207
Warehouse rental expenses paid to Tongfang Co., Ltd.	63	62
Machineries rental expenses paid to Tongfang Co., Ltd.	53	52
Research and development expenses paid to Tongfang Co., Ltd.	1,535	–
Subcontractor expenses paid to Tongfang Co., Ltd	632	–

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 2012 and 2013 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 2012 and 2013, the Group had the following balances with Tongfang and its subsidiaries:

	2013 US\$'000	2012 US\$'000
Trade and other receivables	4,156	5,927
Trade and other payables	(360)	(451)
	<u> </u>	<u> </u>

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 executive directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2013 US\$'000	2012 US\$'000
Short term employee benefits	1,657	1,500
Post-employment benefits	10	9
Share-based payments	182	72
	<u> </u>	<u> </u>
	<u>1,849</u>	<u>1,581</u>

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

- (e) The related party transactions in respect of sales, purchases, office rental expenses, research and development expenses and subcontractor 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 warehouses and 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.

31 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.

(vi) *Construction contracts*

As explained in policy notes 2(m) and 2(v)(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 22 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.

(vii) *Fair value of financial instruments*

For financial liabilities designated at fair value through profit or loss, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, maturities credit spreads and historical volatilities. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is estimated based on the risk free interest rate plus credit spread of comparable bonds with similar credit rating, coupons and maturities. Where other pricing models are used, inputs are based on observable market data at each balance sheet date.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the balance sheet date that would have been determined by market participants acting at arm's length.

32 **POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE DURING THE YEAR ENDED 31 DECEMBER 2013**

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 2013 and one new standard which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, <i>Investment entities</i>	1 January 2014
Amendments to HKAS 32, <i>Financial instruments: Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to HKAS 36, <i>Recoverable amount disclosures for non-financial assets</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2010–2011 Cycle</i>	1 July 2014
<i>Annual Improvements to HKFRSs 2011–2013 Cycle</i>	1 July 2014
HKFRS 9, <i>Financial instruments</i>	Unspecified

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.

3. INDEBTEDNESS STATEMENT

As at 30 April 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total bank borrowings of USD77,270,000 and finance lease amounting to USD134,000.

Save as disclosed in this section headed “INDEBTEDNESS STATEMENT” and apart from intra-group and normal trade bills and payables in the ordinary and usual course of business, the Enlarged Group did not have outstanding at the close of business on 30 April 2014 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any finance lease or hire purchase commitments, liabilities under acceptances or acceptances credits or any contingent liabilities or guarantees.

(i) Borrowings and Finance lease

(a) Borrowings

The Enlarged Group had no other borrowings or indebtedness in the nature of borrowing other than below:

	<i>USD'000</i>
Bank overdraft	1,867
Loans	
– Secured	25,229
– Unsecured	30,810
Other Borrowings	
– Unsecured	19,364
Total	77,270

(b) Obligations under finance lease

The Enlarged Group had obligation under finance lease amounting to USD134,000.

(ii) Mortgages and charges

The Enlarged Group had no mortgages or charges other than those created pursuant to the secured banking facilities amounting to USD37,955,535, under which the following assets (with an aggregate carrying value shown below) are charged or pledged:

	<i>USD'000</i>
Property, plant and equipment	1,150
Investment in a subsidiary	10,515
Land & building under construction	5,616
Inventories	2,058
Trade debtors and other receivables	10,167
Bank deposits	2,127

(iii) Preference shares

As at 30 April 2014, the Enlarged Group had redeemable preference shares issued by a subsidiary in the principal amount of USD38.7 million (equivalent to CAD\$38 million) with carrying value of USD34.9 million. The redeemable preference shares were issued in 2013 with the right to be converted into 14,452,105 common shares of the subsidiary. The redeemable preference shares are redeemable at the option of the holder, if the shares of the subsidiary are not listed on a stock exchange pursuant to the subscription agreement within 5 years.

4. WORKING CAPITAL

Taking into account the Acquisition, the Procurement Agreement and the transactions contemplated thereof and the financial resources available to the Enlarged Group, including the internally generated funds and the available financing facilities from the connected persons and financial institutions, the directors of the Company are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

Given the consistent growth in energy management demand for implementation and execution of energy saving measures, as well as the greater conception of sustainable development in general, the Directors believe the global building energy saving markets have undoubtedly entered into a golden development era.

With an ambition to seize this opportunity, in terms of products and services capability, the Group will increase its investment in technological R&D by actively capitalizing on its three R&D centers throughout the world to achieve complementary advantages. In addition, through building up iconic engineering works in respect of energy saving reform services worldwide, the Group seeks to strengthen its brand recognition and influential power.

In addition, the Group will employ regional segregation to constantly enhance its marketing network in China, the major market of the Group, and facilitate the progress of urban energy saving reform in major cities in China through establishment of subsidiaries. On the city market front, the Group will focus on energy saving reform advancement in first-tier and large cities. Starting from large scale buildings, the Group will build up key trial projects and increase market share through remarkable product quality and consolidated service capability. Meanwhile, on the corporate market front, the Group will cooperate with micro and small enterprises which possess local knowledge by means of technical support. Moreover, mutual benefits can be achieved as the Group seeks to facilitate local application of energy saving service and integration in the industry of building energy saving enterprises. With effective energy saving strengths in resources consolidation, the management hopes to expand the coverage of the Group's products and services, upgrade general service standards, provide a strong momentum for the Group in achieving rapid development, thus creating greater values to the shareholders. As stated under the paragraph headed "Reasons for and Benefits of the Acquisition" in the Letter from the Board in this circular, the Directors consider that, as a result of the Acquisition, the Company could benefit from the Target Company's experienced know-how of the energy-storage and energy-saving cooling system.

With opportunities and challenges ahead, the Group strives to seize business opportunities, fully capitalize on the strengths of its technologies, brands and resources, formulate the strategy of the Group's major development, defy challenges and maintain a steady and rapid growth.

6. MATERIAL CHANGE

On 30 April 2013, the Company announced the major and connected transaction relating to, among other things, the Acquisition at a consideration of RMB380 million (equivalent to approximately HK\$478.4 million) by way of the issue and allotment of the Consideration Shares to the Vendors, details of which are set out in the Letter from the Board in this circular.

Save for the above, the Directors confirm that there was no material change in the financial or trading position or outlook of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

7. FOREIGN EXCHANGE AND 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. The net exchange gain or loss of the Group during the years ended 31 December 2011, 2012 and 2013 were insignificant. The Group does not employ any financial instruments for hedging purposes.

1. ACCOUNTANTS' REPORT OF THE TARGET GROUP

The following is the full text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2014

The Board of Directors
Technovator International Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to TFRH Investments Limited ("TFRH Investments"), Excel Perfect Investments Limited ("Excel Perfect"), Tongfang Energy Saving Engineering Technology Co., Ltd. (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the combined balance sheets of the Target Group as at 31 December 2011, 2012 and 2013 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Group, for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular issued by Technovator International Limited (the "Company") dated 24 June 2014 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company.

TFRH Investments was established on 7 September 2012 with limited liability in the Cayman Islands, Excel Perfect was established on 28 February 2013 with limited liability in Hong Kong and the Target Company was established on 21 June 2002 with limited liability in the People's Republic of China (the "PRC").

As at the date of this report, no audited financial statements have been prepared for TFRH Investments and Excel Perfect, which are investment holding companies. TFRH Investments is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation and the first audited financial statements of Excel Perfect for the period ended 31 December 2013 is not available yet.

All companies now comprising the Target Group have adopted 31 December as their financial year end date. Details of the companies comprising the Target Group that are subject to statutory audits during the Relevant Periods and the names of the respective auditors are set out in Note 2 of Section B. The statutory financial statements of those companies were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the TFRH Investments have prepared the combined financial statements of the Target Group for the Relevant Periods (the “Underlying Financial Statements”) on the same basis and accounting policies as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for each of the Relevant Periods were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institution of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Group or any entities comprising the Target Group in respect of any period subsequent to 31 December 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, on the basis of preparation set out in Note 2 of Section B below, a true and fair view of the state of affairs of the Target Group as at 31 December 2011, 2012 and 2013 and of the Target Group’s combined results and cash flows for the Relevant Periods then ended.

A FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Section B Note</i>	Years ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Turnover	4	–	50,522	110,601
Cost of sales		–	(42,855)	(103,171)
Gross profit		–	7,667	7,430
Other revenue		–	124	3,701
Selling expenses		(410)	(821)	(9,589)
Administrative expenses		(45)	(2,788)	(8,613)
(Loss)/profit from operations		(455)	4,182	(7,071)
Finance costs	5(a)	–	(1,984)	(8,755)
(Loss)/profit before taxation	5	(455)	2,198	(15,826)
Income tax	6	83	(874)	3,264
(Loss)/profit and total comprehensive income for the year		(372)	1,324	(12,562)
Attributable to:				
Equity shareholders of the Target Group		(372)	1,324	(11,862)
Non-controlling interests		–	–	(700)
(Loss)/profit and total comprehensive income for the year		(372)	1,324	(12,562)

The accompanying notes form part of the Financial Information.

COMBINED BALANCE SHEETS

	Section B Note	31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current assets				
Property, plant and equipment	9	26,571	129,272	196,979
Construction in progress	10	2,397	33,870	95,447
Lease prepayments		–	–	3,289
Intangible assets		–	–	382
Deferred tax assets	11(b)	83	120	4,211
Total non-current assets		29,051	163,262	300,308
Current assets				
Inventories		–	–	2,253
Trade and other receivables	12	51,955	136,446	143,715
Restricted bank deposits		–	–	440
Cash and cash equivalents	13	2,594	1,622	95,224
Total current assets		54,549	138,068	241,632
Current liabilities				
Bank loans	14(a)	–	18,900	117,000
Trade and other payables	15	7,072	78,387	188,254
Income tax payables	11(a)	–	911	827
Total current liabilities		7,072	98,198	306,081
Net current assets/(liabilities)		47,477	39,870	(64,449)
Total assets less current liabilities		76,528	203,132	235,859
Non-current liabilities				
Interest-bearing borrowings	14(b)	26,900	152,180	171,927
Total non-current liabilities		26,900	152,180	171,927
Net assets		49,628	50,952	63,932
Capital and reserves				
Combined capital	16(a)	50,000	50,000	69,542
Reserves		(372)	952	(10,910)
Total equity attributable to equity shareholders of the Target Group		49,628	50,952	58,632
Non-controlling interests		–	–	5,300
Total equity		49,628	50,952	63,932

The accompanying notes form part of the Financial Information.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Target Group				
	Combined capital	Retained earnings/ (accumulated losses)	Total	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	50,000	–	50,000	–	50,000
Total comprehensive income for the year	–	(372)	(372)	–	(372)
At 31 December 2011	<u>50,000</u>	<u>(372)</u>	<u>49,628</u>	<u>–</u>	<u>49,628</u>
At 1 January 2012	50,000	(372)	49,628	–	49,628
Total comprehensive income for the year	–	1,324	1,324	–	1,324
At 31 December 2012	<u>50,000</u>	<u>952</u>	<u>50,952</u>	<u>–</u>	<u>50,952</u>
At 1 January 2013	50,000	952	50,952	–	50,952
Total comprehensive income for the year	–	(11,862)	(11,862)	(700)	(12,562)
Capital contribution from equity shareholders	19,542	–	19,542	–	19,542
Capital contribution from a non-controlling shareholder	–	–	–	6,000	6,000
At 31 December 2013	<u>69,542</u>	<u>(10,910)</u>	<u>58,632</u>	<u>5,300</u>	<u>63,932</u>

The accompanying notes form part of the Financial Information.

COMBINED CASH FLOW STATEMENTS

	<i>Section B Note</i>	Years ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash flows from operating activities				
Profit before taxation		(455)	2,198	(15,826)
Adjustments for:				
Depreciation		–	2,428	17,702
Amortisation		–	–	19
Interest income		–	(124)	(101)
Finance costs		–	1,984	8,600
Impairment losses on trade and other receivables		–	480	2,847
		(455)	6,966	13,241
Increase in inventories		–	–	(2,253)
Decrease/(increase) in trade and other receivables		2,038	(88,548)	(2,420)
Increase in trade and other payables		616	29,314	46,315
Cash generated from/(used in) operations		2,199	(52,268)	54,883
Income tax paid		–	–	(911)
Net cash generated from/(used in) operating activities		2,199	(52,268)	53,972
Cash flows from investing activities				
Payment for the purchase of property, plant and equipment		(26,505)	(88,876)	(156,545)
Payment for purchase of intangible assets		–	–	(382)
Payment for lease prepayments		–	–	(3,308)
Proceeds from disposal of property, plant and equipment		–	–	6
Interest received		–	124	101
Net cash used in investing activities		(26,505)	(88,752)	(160,128)

	<i>Section B Note</i>	Years ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash flows from financing activities				
Proceeds from bank borrowings		–	39,900	195,400
Repayment of bank borrowings		–	–	(38,900)
Proceeds from loans from related parties		26,900	104,280	23,720
Repayment of loans from related parties		–	–	(62,373)
Capital injection from shareholders		–	–	95,213
Increase in restricted bank deposits		–	–	(440)
Interest paid		–	(4,132)	(12,417)
Net cash generated from financing activities		<u>26,900</u>	<u>140,048</u>	<u>200,203</u>
Net increase/(decrease) in cash and cash equivalents				
		2,594	(972)	94,047
Cash and cash equivalents at 1 January		–	2,594	1,622
Effect of foreign exchange rate changes		–	–	(445)
Cash and cash equivalents at 31 December	13	<u>2,594</u>	<u>1,622</u>	<u>95,224</u>

The accompanying notes form part of the Financial Information.

B NOTES TO COMBINED FINANCIAL INFORMATION**1 STATEMENT OF COMPLIANCE**

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2013. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2013 are set out in note 21.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

2 BASIS OF PREPARATION AND PRESENTATION

The Target Company was incorporated by Tsinghua Tongfang Artificial Environment Co., Ltd (“Tongfang Artificial”) as a subsidiary in the PRC in 2002 with limited liability. Tongfang Artificial is a subsidiary of Tsinghua Tongfang Co., Ltd. (“Tongfang”). During 2013, the Target Company issued additional shares to Excel Perfect, and Tongfang Artificial transferred all of its shareholdings on the Target Company to TFRH Investments. Thereafter, the Target Company is owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect, respectively, as at the date of this report. The Target Group is principally engaged in energy management solution market.

TFRH Investments is the immediate holding company of the Target Company and was incorporated in the Cayman Islands with limited liability. The ultimate holding company of the Target Group is Tongfang, which produces financial statements available for public use.

As at the date of this report, the Target Company has direct interests in the following subsidiaries, which are private limited companies. The particulars of these subsidiaries are set out below:

Name of entity	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of equity interests attributable to the Target Company	Principal activities
Tongfang Energy-Saving (XinLe) Heating Power Co., Ltd. (“Xinle”) 同方節能(新樂)熱力有限公司(i)	The PRC 15 October 2013	Registered and paid-up capital of RMB20,000,000	70%	Energy management solution
Tongfang Energy-Saving (Youyi) Heating Power Co., Ltd. (“Youyi”) 同方節能(友誼)熱力有限公司(i)	The PRC 31 October 2013	Registered and paid-up capital of RMB30,000,000	100%	Energy management solution

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

The statutory financial statements of the Target Company and its subsidiaries set out above for the years ended 31 December 2011 and 2012 were audited by ShineWing Certified Public Accountant (信永中和會計師事務所(特殊普通合夥)(i)), a certified public accounting firm registered in the PRC. The statutory financial statements of these entities for the year ended 31 December 2013 are not available yet.

In 2013, certain business which were clearly delineated from the Target Company's energy management solution business (the "Retained Business") were disposed by the Target Company and acquired by Tongfang pursuant to a sale and purchase agreement dated 31 March 2013 entered into between the Target Company and Tongfang. The Retained Business maintained separate accounting records and management personnel, who have been transferred to Tongfang together with the Retained Business. The Financial Information excludes the assets, liabilities and results of operations of the Retained Business whose business is, in the opinion of the directors of the Company, clearly delineated from the existing operations of the Target Company and whose assets, liabilities and results of operations are clearly identifiable.

The directors of the Company are of the view that the Retained Business is clearly different from the existing energy management solution business of the Target Company. The Retained Business is principally engaged in agent sale of ice storage cooling coils and affiliated installation services. The production license and major resources for ice storage cooling coils business are controlled by Tongfang. The customers of the Retained Business are mainly general contracting companies which provide construction services to the end users in the commercial real estate sector. The products sold and installed by the Retained Business are not designed or manufactured by the Target Company, and the operations of the Retained Business do not involve high technology and are relatively simple. In contrast, the existing energy management solution business of the Target Company is principally engaged in providing energy-saving solution in the heating field and cooling field markets based on various self-owned energy saving technology, including heating system technology and intelligent system technology, with dual business models of Engineering, Procurement and Construction ("EPC") and Energy Management Contract ("EMC"). The target customers are the end users in the industrial sector and commercial real estate sector. The heating field business, which is currently the major operation of the Target Company, provides solution for recovery of industrial waste heat primarily through absorption heat pump system, while the cooling field business provides optimized design, controls plan and system implementation of energy centers with ice storage system. During the Relevant Periods, the cooling field business purchased ice storage cooling coils, which form a small component of an ice storage system, from independent third party.

Upon the disposal of the Retained Business, in April 2013, the Target Company issued additional shares to Excel Perfect, and Tongfang Artificial transferred all of its equity interests in the Target Company to TFRH Investments, an indirect wholly owned subsidiary of Tongfang. The Target Company is owned as to 75% and 25% by TFRH Investments and Excel Perfect thereafter.

Pursuant to the sale and purchase agreement entered by the Company with the shareholders of TFRH Investments and Excel Perfect on 17 April 2014, the Company will acquire 100% equity interest in the Target Company through its acquisition of 100% equity interests in each of TFRH Investments and Excel Perfect. In this connection and for the purpose of presenting the results of operations of the Target Company and its subsidiaries throughout the relevant periods, the Financial Information presented represented the combined financial information of TFRH Investment, Excel Perfect and the Target Company and its subsidiaries (collectively referred to as the "Target Group"). The Retained Business transferred to Tongfang have been excluded in the preparation of the Financial Information as if they had never been within the Target Group. The combined statements of comprehensive income, combined statements of changes in equity and combined statement of cash flows for the Relevant Periods include the combined results and cash flows of the companies comprising the Target Group as if they constituted as a single reporting unit throughout the Relevant Periods, or since the respective dates of their incorporation of the individual company where this is a shorter period. The combined balance sheets as at 31 December 2011, 2012 and 2013 have been prepared to present the state of affairs of the companies comprising the Target Group as at respective dates as if they constituted as a single reporting unit as at those dates.

3 SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of measurement**

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. It is prepared on the historical cost basis.

(b) Use of estimates and judgements

The preparation of Financial Information 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 Information and major sources of estimation uncertainty are discussed in Note 20.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the combined financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined 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 Target Group, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target 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 Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Target Group. Non-controlling interests in the results of the Target Group are presented on the face of the combined 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 Target Group. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with notes 3(k) and 3(l), depending on the nature of liability.

Changes in the Target 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 combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target 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.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 3(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 3(r)).

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:

Buildings	5–30 years
Office equipment	3–10years
Motor vehicles	5–10 years

Energy-saving facilities are depreciated over the contract term.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

(e) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(g)).

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. 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:

Software	5 years
----------	---------

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target 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 Target Group

Assets that are held by Target Group under leases which transfer to the Target 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 Target Group are classified as operating leases.

(ii) Operating lease charges

Where the Target 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.

(g) Impairment of assets**(i) Impairment of trade and other receivables**

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is 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 Target 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
- Construction in progress
- Lease prepayments

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 the 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 of disposal (if measurable) or value in use (if determinable).

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

(h) 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 costs of purchase, costs of conversion 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 writedown 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 writedown of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) 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 3(p)(ii). 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 reporting period. 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 reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are included under "Trade and other payables".

(j) 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 3(g)), 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.

(k) 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 the effective interest method.

(l) Trade and other payables

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

(m) 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 Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(n) Employee benefits

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.

(o) 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 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 substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided 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 Target Group controls the timing of the 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Target Company or the Target 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 Target Company or the Target 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.

(p) Revenue recognition

Revenue is reassured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target 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 is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) 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; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of 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.

(iii) Service income

Service income is recognised when services are rendered to customers.

(iv) Interest income

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

(v) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target 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.

(q) **Translation of foreign currencies**

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 end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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 measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance Sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(r) **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.

(s) **Related parties**

- (a) A person, or a close member of that person's family, is related to the Target Group if that person:
- (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

- (b) An entity is related to the Target Group if any of the following conditions applies:
- (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) 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 person in their dealings with the entity.

(t) 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 Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business.

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.

4 SEGMENT REPORTING

The Target Group manages its businesses by types of contracts entered into with customers. In a manner consistent with the way in which information is reported internally to the Target Group's most senior executive management for the purposes of resource allocation and performance assessment, the Target Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Energy Management Contract ("EMC"): This segment provide energy saving related construction and management services, involves investment, construction, operation and maintenance services for energy saving projects which provide heating to end users.

Engineering, Procurement and Construction ("EPC"): This segment only provides energy saving related construction services.

(a) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Target 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, 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, 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 Target Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the combined financial statements.

Information regarding the Target Group's reportable segments as provided to the Target Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011, 2012 and 2013 is set out below:

	EMC			EPC			Total		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue	-	2,682	31,105	-	47,840	79,496	-	50,522	110,601
Reportable segment (loss)/profit	(455)	65	11,095	-	7,025	2,357	(455)	7,090	13,452
Financial costs	-	(1,921)	(7,700)	-	(63)	(1,055)	-	(1,984)	(8,755)
Depreciation and amortization for the year	-	(2,419)	(17,654)	-	(9)	(48)	-	(2,428)	(17,702)

(b) Reconciliations of reportable segment profit or loss

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
(Loss)/profit for the year			
Reportable segment (loss)/profit	(455)	7,090	13,452
Finance costs	-	(1,984)	(8,755)
Depreciation and amortization	-	(2,428)	(17,702)
Unallocated head office and corporate expenses	-	(480)	(2,821)
Combined (loss)/profit before taxation	(455)	2,198	(15,826)

5 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	–	4,132	12,417
Less: interest expense capitalised*	–	(2,148)	(3,817)
	–	1,984	8,600
Foreign exchange loss	–	–	155
Net finance costs	–	1,984	8,755

* The borrowing costs have been capitalised at annual rates of 6.0% and 5.6%–7.0% for the years ended 31 December 2012 and 2013, respectively.

(b) Staff costs

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	178	2,034	10,663
Contributions to defined contribution retirement plans	25	224	1,296
	203	2,258	11,959

Pursuant to the relevant labour rules and regulations in the PRC, the Target Group participate in defined contribution retirement benefit schemes (“the Schemes”) organised by the respective local government authorities whereby the Target Group is required to make contributions to the Schemes at 20% of the eligible employees’ salaries during the Relevant Period.

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

(c) Other items

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Depreciation	–	2,428	17,702
Auditors’ remuneration	–	–	130
Impairment losses on trade and other receivables	–	480	2,847
Operating lease charge (minimum lease payments) in respect of land and properties	–	532	1,226

6 INCOME TAX

(a) Income tax in the combined statements of comprehensive income represents:

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Provision of PRC income tax for the year	–	911	827
Deferred tax	(83)	(37)	(4,091)
	<u>(83)</u>	<u>874</u>	<u>(3,264)</u>

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation	<u>(455)</u>	<u>2,198</u>	<u>(15,826)</u>
Notional tax calculated at the applicable tax rate	(114)	550	(3,957)
Tax effect of non-deductible expenses	<u>31</u>	<u>324</u>	<u>693</u>
Actual tax (benefits)/expense	<u>(83)</u>	<u>874</u>	<u>(3,264)</u>

The Target Company and its subsidiaries in the PRC are subject to PRC corporate income tax at 25% during the relevant period.

Pursuant to the rules and regulations of the Cayman Islands, the TFRH Investments is not subject to any income tax in the Cayman Islands.

The Target Group is not subject to Hong Kong corporate income tax during the Relevant Periods.

7 DIRECTORS' REMUNERATION

The directors believe the presentation of such information is not meaningful for the purpose of this report.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors believe the presentation of the five highest paid employees information is not meaningful for the purpose of this report.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Energy saving facilities RMB'000	Total RMB'000
Cost:					
At 1 January 2011	-	-	-	-	-
Additions	-	40	-	-	40
Transfer from construction in progress	-	-	-	26,531	26,531
	<u>-</u>	<u>40</u>	<u>-</u>	<u>26,531</u>	<u>26,531</u>
At 31 December 2011	-	40	-	26,531	26,571
	-----	-----	-----	-----	-----
At 1 January 2012	-	40	-	26,531	26,571
Additions	-	52	119	-	171
Transfer from construction in progress	-	-	-	104,958	104,958
	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,958</u>	<u>104,958</u>
At 31 December 2012	-	92	119	131,489	131,700
	-----	-----	-----	-----	-----
At 1 January 2013	-	92	119	131,489	131,700
Additions	15,929	314	1,850	50,023	68,116
Transfer from construction in progress	-	-	-	17,299	17,299
Disposals	-	-	(6)	-	(6)
	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(6)</u>
At 31 December 2013	15,929	406	1,963	198,811	217,109
	-----	-----	-----	-----	-----
Accumulated depreciation:					
At 1 January 2011	-	-	-	-	-
Charge for the year	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2011	-	-	-	-	-
	-----	-----	-----	-----	-----
At 1 January 2012	-	-	-	-	-
Charge for the year	-	(12)	(4)	(2,412)	(2,428)
	<u>-</u>	<u>(12)</u>	<u>(4)</u>	<u>(2,412)</u>	<u>(2,428)</u>
At 31 December 2012	-	(12)	(4)	(2,412)	(2,428)
	-----	-----	-----	-----	-----
At 1 January 2013	-	(12)	(4)	(2,412)	(2,428)
Charge for the year	(40)	(44)	(136)	(17,482)	(17,702)
	<u>(40)</u>	<u>(44)</u>	<u>(136)</u>	<u>(17,482)</u>	<u>(17,702)</u>
At 31 December 2013	(40)	(56)	(140)	(19,894)	(20,130)
	-----	-----	-----	-----	-----
Net book value:					
At 31 December 2011	-	40	-	26,531	26,571
	<u>-</u>	<u>40</u>	<u>-</u>	<u>26,531</u>	<u>26,571</u>
At 31 December 2012	-	80	115	129,077	129,272
	<u>-</u>	<u>80</u>	<u>115</u>	<u>129,077</u>	<u>129,272</u>
At 31 December 2013	15,889	350	1,823	178,917	196,979
	<u>15,889</u>	<u>350</u>	<u>1,823</u>	<u>178,917</u>	<u>196,979</u>

10 CONSTRUCTION IN PROGRESS

	2011 RMB'000	2012 RMB'000	2013 RMB'000
At 1 January	–	2,397	33,870
Additions	28,928	136,431	78,876
Transferred to property, plant and equipment	<u>(26,531)</u>	<u>(104,958)</u>	<u>(17,299)</u>
At 31 December	<u>2,397</u>	<u>33,870</u>	<u>95,447</u>

11 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Current tax payable in the combined balance sheets represents:

	2011 RMB'000	2012 RMB'000	2013 RMB'000
Provision for the year	<u>–</u>	<u>911</u>	<u>827</u>

(b) Deferred tax assets in the combined balance sheets

(i) Movements of deferred tax assets are as follows:

	2011 RMB'000	2012 RMB'000	2013 RMB'000
At 1 January	–	83	120
Credited to the combined income statement	<u>83</u>	<u>37</u>	<u>4,091</u>
At 31 December	<u>83</u>	<u>120</u>	<u>4,211</u>

(ii) The deferred tax assets are arising from:

	31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Allowance for doubtful debts	–	120	832
Tax losses carry forwards	<u>83</u>	<u>–</u>	<u>3,379</u>
	<u>83</u>	<u>120</u>	<u>4,211</u>

12 TRADE AND OTHER RECEIVABLES

	31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade receivables	–	48,657	110,771
Bills receivables	–	–	730
Less: allowance for doubtful debts	–	(478)	(3,300)
	–	48,179	108,201
Other receivables			
– amounts due from related parties	47,950	78,978	3,642
– amounts due from third parties	12	7,924	16,131
Loans and receivables	47,962	135,081	127,974
Deposits and prepayments	3,993	1,365	13,944
Gross amount due from customers for contract work	–	–	1,797
Total	<u>51,955</u>	<u>136,446</u>	<u>143,715</u>

- (a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.
- (b) As at 31 December 2013, trade receivables of the Target Group amounting to RMB7,532,000 was pledged as collateral for long-term bank loans (see note 14).
- (c) Amounts due from related parties are unsecured, interest free and repayable on demand.
- (d) **Ageing analysis**

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

	31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Current	–	33,179	69,266
Less than 1 year past due	–	15,000	33,935
More than 1 year but less than 2 years past due	–	–	5,000
	–	15,000	38,935
	–	48,179	108,201

Trade debtors and bills receivable are due within 30–180 days from the date of billing. Further details of the Target Group's credit policy are set out in note 17(a).

(e) **Impairment of trade receivables and bills receivable**

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivables directly (see note 3(g)).

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

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	–	–	478
Impairment loss recognised	–	478	2,822
	<u>–</u>	<u>478</u>	<u>2,822</u>
At 31 December	<u>–</u>	<u>478</u>	<u>3,300</u>

(f) **Trade and other receivables that are not impaired**

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 12(d)) relate to 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 Target 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 Target Group does not hold any collateral over these balances.

13 CASH AND CASH EQUIVALENTS

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and on hand	2,594	1,622	95,224
	<u>2,594</u>	<u>1,622</u>	<u>95,224</u>

14 INTEREST-BEARING BORROWINGS(a) **Bank loans comprise:**

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans – secured	–	9,900	89,900
Current portion of long-term bank loans	–	9,000	27,100
	<u>–</u>	<u>9,000</u>	<u>27,100</u>
	<u>–</u>	<u>18,900</u>	<u>117,000</u>

(b) Non-current interest-bearing borrowings comprise:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank loans – secured	–	30,000	106,500
Loans from related parties-unsecured	26,900	131,180	92,527
	26,900	161,180	199,027
Less: current portion of long-term bank loans	–	9,000	27,100
	<u>26,900</u>	<u>152,180</u>	<u>171,927</u>

As at 31 December 2013, bank loans of RMB85,500,000 are secured by trade and bills receivables of RMB7,532,000.

(c) As at 31 December 2012 and 2013, bank loans of RMB39,900,000 and RMB110,900,000 are guaranteed by related parties, respectively.

(d) Effective interest rate per annum at the year end ranged from:

	31 December		
	2011	2012	2013
Bank loans	–	6.63%~6.72%	5.60%~7.04%
Loans from related parties	6.00%	6.00%	6.00%

(e) The borrowings were repayable as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within one year or on demand	–	18,900	117,000
After one year but within two years	–	10,000	28,100
After two years but within five years	26,900	142,180	143,827
	<u>26,900</u>	<u>171,080</u>	<u>288,927</u>

15 TRADE AND OTHER PAYABLES

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to related parties	–	42,460	26,137
Other trade and bills payable	6,456	31,469	45,323
	<u>6,456</u>	<u>73,929</u>	<u>71,460</u>
Other payables and accruals			
– amounts due to related parties	616	4,223	97,181
– amounts due to third parties	–	235	19,613
	<u>–</u>	<u>4,458</u>	<u>116,794</u>
Financial liabilities measured at amortised cost	7,072	78,387	188,254
	<u>7,072</u>	<u>78,387</u>	<u>188,254</u>

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:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	6,456	73,900	70,744
Over 1 year but within 2 years	–	29	687
Over 2 year but within 3 years	–	–	29
	<u>6,456</u>	<u>73,929</u>	<u>71,460</u>

The amounts due to related parties are interest free, unsecured and repayable on demand.

16 CAPITAL AND RESERVES

(a) Combined capital

For the purpose of this Financial Information, the balance of combined capital of the Target Group as at 31 December 2011, 2012 and 2013 represented the aggregate of the share capital and capital reserves of the companies now comprising the Target Group as at the respective dates, after elimination of investment costs in the Target Company recorded by TFRH Investments and Excel Perfect.

(b) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

The Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total assets. The Target Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios of the Target Group as at 31 December 2011, 2012 and 2013 are 32.2%, 56.8% and 53.3%, respectively.

There were no changes in the Target Group's approach to capital management compared with previous years. Companies comprising the Target Group are not subject to externally imposed capital requirements.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

The Target 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 Target 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 Target 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 Target Group does not obtain collateral from customers.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. As at 31 December 2011, 2012 and 2013, 100%, 100% and 92% of trade receivables was due from the Target Group's five largest customers, respectively.

(b) Liquidity risk

The Target Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Target Group's policy is to regularly monitor current and expected liquidity requirements 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 date of the Target Group's 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 balance sheet date) and the earliest date the Target Group can be required to pay:

31 December 2011

	Contractual undiscounted cash flow					More than 5 years RMB'000
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	
Interest-bearing borrowings	26,900	32,806	1,651	1,750	29,405	-
Trade and other payables	7,072	7,072	7,072	-	-	-
Total	33,972	39,878	8,723	1,750	29,405	-

31 December 2012

	Contractual undiscounted cash flow					More than 5 years RMB'000
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	
Interest-bearing borrowings	171,080	194,299	29,059	19,680	145,560	-
Trade and other payables	78,387	78,387	78,387	-	-	-
Total	249,467	272,686	107,446	19,680	145,560	-

31 December 2013

	Contractual undiscounted cash flow					More than 5 years RMB'000
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	
Interest-bearing borrowings	288,927	316,962	133,510	127,294	56,158	-
Trade and other payables	188,254	188,254	188,254	-	-	-
Total	477,181	505,216	321,764	127,294	56,158	-

(c) Interest rate risk

The interest rates of the Target Group's bank borrowings and loans from related parties are disclosed in Note 14(d).

It is estimated that a general increase or decrease of 100 basic points in interest rates, with all other variables held constant, would not have significant financial impact on the Target Group.

(d) Fair values

During the Relevant Periods, no financial instruments of the Target Group was measured at fair value across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures.

In respect of the Target Group's cash and cash equivalents, trade and other receivables (inclusive of amounts due from related parties), and trade and other payables (inclusive of amounts due to related parties), the carrying amounts approximated fair values during the Relevant Periods due to the relatively short term nature of these financial assets or liabilities.

In respect of the Target Group's borrowings, the carrying amounts were not materially different from their fair values during the Relevant Periods. The fair value of borrowings were estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

18 COMMITMENTS**(a) Capital commitments**

Commitments in respect of property, plant and equipment as at the balance sheet date not provided for in the combined financial statements were as follows:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	38,129	6,656	260,689
	<u>38,129</u>	<u>6,656</u>	<u>260,689</u>

(b) Operating lease commitments

Commitments in respect of properties under operating leases as at the balance sheet date, not provided for in the combined financial statements were as follows:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	–	687	1,554
After 1 year but within 5 years	–	–	7,716
	<u>–</u>	<u>687</u>	<u>9,270</u>

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transaction with related parties

During the Relevant Period, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Tongfang Kawasaki Advanced energy-saving machine Co., Ltd.* ("Tongfang Kawasaki") (同方川崎空調設備有限公司)	Associate of Tongfang
Tsinghua Tongfang Artificial Environment Co., Ltd.* ("Tongfang Artificial") (同方人工環境有限公司)	Fellow Subsidiary

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

(b) Significant related party transactions

	Years ended 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Purchases from Tongfang Kawasaki	12,510	88,089	67,954
Proceeds from loans from Tongfang Artificial	26,900	104,280	23,720
Repayment of loans to Tongfang Artificial	–	–	(62,373)
	<u> </u>	<u> </u>	<u> </u>

(c) Balances with related parties

	Note	31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade and other receivables	12	<u>47,950</u>	<u>78,978</u>	<u>3,642</u>
Loans from related parties	14	<u>26,900</u>	<u>131,180</u>	<u>92,527</u>
Trade and other payables	15	<u>616</u>	<u>46,683</u>	<u>123,318</u>

20 CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE TARGET GROUP'S ACCOUNTING POLICIES**Key sources of estimation uncertainty**

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

(i) Impairment of trade and other receivables

The management determines the impairment of trade and other 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 and other receivables at the end of the reporting period.

(ii) 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 Target 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.

(iii) 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 Target Company's subsidiaries as the Target 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.

(iv) Construction contracts

As explained in policy notes 3(p)(ii), 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 Target Group's recent experience and the nature of the construction activity undertaken by the Target Group, the Target 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, 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.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these combined financial statements. These included the following which may be relevant to the Target Group's operations and financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, <i>Investment entities</i>	1 January 2014
Amendments to HKAS 32, <i>Financial instruments:</i> <i>Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to HKAS 36, <i>Recoverable amount disclosures for non-financial assets</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2010–2011 Cycle</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2011–2013 Cycle</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	Unspecified

The Target Group in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 Target Group's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2013. No dividend or distribution has been declared or made by any companies comprising the Target Group in respect of any period subsequent to 31 December 2013.

Yours faithfully
KPMG
Certified Public Accountant
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Group for the period from the year ended 31 December 2011 to the year ended 31 December 2013 (the “Relevant Periods”) based on the accountants’ report of the Target Group as set out in Section I of this Appendix IIA.

Overview

The Target Company is one of the few PRC companies in the industrial and architectural heating and cooling energy-saving solution market with the main business models of Energy Management Contract (“EMC”) and Engineering, Procurement & Construction (“EPC”).

The Target Company is a wholly foreign-owned enterprise established in the PRC with limited liability, owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect, respectively. TFRH Investments is an investment holding company established in Cayman Islands with limited liability. Excel Perfect is an investment holding company established in Hong Kong with limited liability.

The techniques adopted by the Target Company are unique, as the Target Company primarily promotes the technology of absorption heat pump system (吸收式熱泵系統) in the heating field, as well as the dehumidifying blast technology on blast furnace (高爐鼓風脫濕技術) and temperature and humidity separate control system for double-cold-source (雙冷源溫濕分控系統) in the cooling field.

Taking into account the continuous and steady economic growth in the PRC and the commitment of the PRC government in energy saving, the Directors are optimistic on the future demand of the energy management solution industry in which the Target Company operates.

Business review

Revenue

The revenue of the Target Group during the Relevant Periods was all derived from the energy management solution business, which can be divided into two segments, namely EMC and EPC. EMC is the segment that provides energy saving related construction and management services, and involves investment, construction, operation and maintenance services for energy saving projects which provide heating to end users; whereas EPC is the segment that only provides energy saving related construction services. Set forth below is the revenue of the Target Group during the Relevant Periods:

Segments	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
EMC revenue	–	2,682	31,105
EPC revenue	–	47,840	79,496
	–	50,522	110,601

For the year ended 31 December 2012, the revenue of the Target Group amounted to approximately RMB50.5 million which was contributed by 1 EMC project that was under construction in 2011 and completed its construction in 2012, and 1 EPC project that completed its construction in 2012.

For the year ended 31 December 2013, the revenue of the Target Group amounted to approximately RMB110.6 million, with an increase of approximately RMB60.1 million or 119.0% compared to the year ended 31 December 2012, which was due to the increase in completed construction projects in 2013 as compared to the previous year. In 2013, the construction of 4 EMC projects and 2 EPC projects was completed.

Going forward, with more contracts completing the phase of the construction and entering into revenue sharing period, the revenue of the Target Group will increase.

Cost of Sales

For the year ended 31 December 2012, the cost of sales of the Target Group amounted to approximately RMB42.9 million, with an increase of 100% compared to the year ended 31 December 2011.

Cost of sales of the Target Group increased from approximately RMB42.9 million for the year ended 31 December 2012 to approximately RMB103.2 million for the year ended 31 December 2013.

Such increase was mainly attributable to an overall increase in completion of construction projects.

Selling expenses

Selling expenses of the Target Group increased from approximately RMB410,000 for the year ended 31 December 2011 to approximately RMB821,000 for the year ended 31 December 2012 and to approximately RMB9,589,000 for the year ended 31 December 2013. The increase was primarily due to an increase in staff costs, business development costs and transportation costs associated with the substantial expansion of the Target Group's business.

Administrative expenses

Administrative expenses of the Target Group increased from approximately RMB45,000 for the year ended 31 December 2011 to approximately RMB2,788,000 for the year ended 31 December 2012 and to approximately RMB8,613,000 for the year ended 31 December 2013. The increase was primarily due to an increase in administrative staff costs and projects administrative expenditures.

Finance cost

Finance cost of the Target Group for the year ended 31 December 2011 is unrecorded as the interest expenses in respect of the projects under construction in 2011 were capitalized. Finance cost of the Target Group increased from approximately RMB1,984,000 for the year ended 31 December 2012 to approximately RMB8,755,000 for the year ended 31 December 2013. The increase was primarily due to the increase of approximately RMB6,616,000 in interest expenses on borrowings as a result of increase in interest-bearing borrowings.

Income tax expenses

The Target Group has recorded tax expenses of approximately RMB874,000 for the year ended 31 December 2012, as compared to tax income of approximately RMB83,000 for the year ended 31 December 2011.

For the year ended 31 December 2013, the Target Group has recorded tax income of approximately RMB3,264,000, as compared to a tax expenses of approximately RMB874,000 for the year ended 31 December 2012.

The record of tax expense for the year ended 31 December 2012 was mainly due to the Target Group making profit in the year 2012, whereas the records of tax income for the years ended 31 December 2011 and 2013 were mainly due to the recognition of deferred tax assets on tax losses carrying forward.

Financial Position*Capital Structure*

The majority of the total assets of the Target Group were (i) property, plant and equipment (which includes energy saving facilities); (ii) trade and other receivables; (iii) constructions in progress and (iv) cash and cash equivalents. Total assets of the Target Group were approximately RMB83,600,000, RMB301,330,000 and RMB541,940,000 as at 31 December 2011, 2012 and 2013, respectively.

The liabilities of the Target Group mainly include (i) trade and other payables; (ii) long-term interest-bearing borrowings; and (iii) short-term bank loans. Total liabilities of the Target Group were approximately RMB33,972,000, RMB250,378,000 and RMB478,008,000 as at 31 December 2011, 2012 and 2013, respectively.

The net asset values of the Target Group as at 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Net assets	<u>49,628</u>	<u>50,952</u>	<u>63,932</u>

As at 31 December 2011, 2012 and 2013, the trade and bills receivables (net of allowance for doubtful debt) were nil, approximately RMB48.2 million and approximately RMB108.2 million, respectively. Out of the outstanding receivables of approximately RMB108.2 million as at 31 December 2013, approximately RMB39.4 million was settled as at 30 April 2014.

No financial instruments for hedging purposes have been used.

Liquidity and financial resources, gearing

The Target Group generally finances its operations with amounts due from a related parties and bank loans (denominated in RMB). The balance of shareholder loan due to the Controlling Shareholder and/or its associates by the Target Group as at 31 December 2013 amounted to approximately RMB92,527,000. The shareholder loan is unsecured, fixed rate interest-bearing and no fixed terms of repayment. Upon Completion, members of the Target Group will become indirect wholly-owned subsidiaries of the Company. Therefore, any continuing transactions between the Target Group and the Controlling Shareholder (and its associates other than the Group) following Completion, including the loan provided by the Controlling Shareholder (and its associates other than the Group) will become continuing connected transactions of the Group under the Listing Rules.

As at 31 December 2011, 2012 and 2013, the aggregate of banks loans and interest bearing borrowings were approximately RMB26.9 million, approximately RMB171.1 million and approximately RMB288.9 million respectively. The increase in banks loans and interest bearing borrowings during the period is due to the Target Group's expansion in EMC and EPC business, which is reflected in the significant growth in revenue derived from EMC and EPC contracts.

As at 31 December 2013, bank loans of approximately RMB85.5 million are secured by trade and bills receivables amounting to approximately RMB7.5 million. As at 31 December 2012 and 2013, bank loans of approximately RMB39.9 million and approximately RMB110.9 million respectively are guaranteed by related parties.

As at 31 December 2011, 2012 and 2013, the Target Group's gearing ratios (defined as total debts divided by total assets) were approximately 32.2%, 56.8% and 53.3% respectively.

Commitments*(a) Capital commitments*

The Target Group had capital commitments in respect of properties under development, construction in progress, investment properties as at 31 December 2011, 2012 and 2013 not provided for in the combined financial statements are as follows:

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Contracted for	<u>38,129</u>	<u>6,656</u>	<u>260,689</u>

The amount of capital commitments for the year ended 31 December 2011, 2012 and 2013 were approximately RMB38.1 million, RMB6.7 million and RMB260.7 million respectively. The decrease in the capital commitments from RMB38.1 million for the year ended 31 December 2011 to RMB6.7 million for the year ended 31 December 2012 because the Target Group had less capital commitments contracted for as at 31 December 2012.

The increase in the capital commitments from RMB6.7 million for the year ended 31 December 2012 to RMB260.7 million for the year ended 31 December 2013 is due to a new EMC project contracted for amounting to an aggregate of RMB200 million.

The Directors expect that the capital commitment will be financed by the internally generated funds and available financing facilities from related parties and banks.

Foreign exchange risk

The Target Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Most of the Target Group's monetary assets and liabilities are also denominated in RMB. Therefore, the Target Group is considered to have no significant foreign exchange risk.

Contingent liabilities

As at 31 December 2011, 2012 and 2013 respectively, the Target Group had no material contingent liabilities.

Subsidiaries

On 15 October 2013, Tongfang Energy Saving (XinLe) Heating Power Co., Ltd was established, being jointly funded by the Target Company and XinLe Yimin

Heating Power Co., Ltd with an initial registered capital of RMB20 million, of which the Target Company contributed RMB14 million and XinLe Yimin Heating Power Co., Ltd contributed RMB6 million, representing 70% and 30% of the registered capital respectively.

On 31 October 2013, Tongfang Energy Saving (Youyi) Heating Power Co., Ltd was established, being funded by the Target Company with an initial registered capital of RMB30 million, representing 100% of the registered capital.

Employees and remuneration policies

Pursuant to the relevant labor rules and regulations in the PRC, the Target Group participates in defined contribution retirement benefit schemes (“the Schemes”) organized by the respective local government authorities whereby the Target Group is required to make contributions to the Schemes at 20% of the eligible employees’ salaries during the Relevant Periods.

The number of employees of the Target Group has increased significantly over the Relevant Periods, as such number is below 5 for the year ended 31 December 2011, which increased to over 25 and approximately 130 for the years ended 31 December 2012 and 31 December 2013 respectively. The staff costs as at 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December 2011 <i>RMB'000</i>	Year ended 31 December 2012 <i>RMB'000</i>	Year ended 31 December 2013 <i>RMB'000</i>
Salaries, wages and other benefits	178	2,034	10,663
Contributions to defined contribution retirement plans	25	224	1,296
	203	2,258	11,959

The aggregate of salaries, wages and other benefits and contributions to defined contribution retirement plans amounted to approximately RMB0.2 million, RMB2.3 million and RMB12.0 million respectively. The increases over the Relevant Periods are due to staff number and salary increment as a result of business expansion.

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

1. ACCOUNTANTS' REPORT OF TFRH INVESTMENTS GROUP

The following is the full text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2014

The Board of Directors
Technovator International Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to TFRH Investments Limited ("TFRH Investments"), Tongfang Energy Saving Engineering Technology Co., Ltd. (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "TFRH Investments Group") comprising the combined balance sheets of the TFRH Investments Group as at 31 December 2011, 2012 and 2013 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the TFRH Investments Group, for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular issued by Technovator International Limited (the "Company") dated 24 June 2014 (the "Circular") in connection with the proposed acquisition of the TFRH Investments Group by the Company.

TFRH Investments was established on 7 September 2012 with limited liability in the Cayman Islands, and the Target Company was established on 21 June 2002 with limited liability in the People's Republic of China (the "PRC").

As at the date of this report, no audited financial statements have been prepared for TFRH Investments, which is an investment holding company, and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the TFRH Investments Group have adopted 31 December as their financial year end date. Details of the companies comprising the TFRH Investments Group that are subject to statutory audits during the Relevant Periods and the names of the respective auditors are set out in Note 2 of Section B. The statutory financial statements of those companies were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the TFRH Investments have prepared the combined financial statements of the TFRH Investments Group for the Relevant Periods (the “Underlying Financial Statements”) on the same basis and accounting policies as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for each of the Relevant Periods were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institution of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the TFRH Investments Group or any entities comprising the TFRH Investments Group in respect of any period subsequent to 31 December 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, on the basis of preparation set out in Note 2 of Section B below, a true and fair view of the state of affairs of the TFRH Investments Group as at 31 December 2011, 2012 and 2013 and of the TFRH Investments Group’s combined results and cash flows for the Relevant Periods then ended.

A FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Section B Note	Years ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Turnover	4	–	50,522	110,601
Cost of sales		–	(42,855)	(103,171)
Gross profit		–	7,667	7,430
Other revenue		–	124	3,701
Selling expenses		(410)	(821)	(9,589)
Administrative expenses		(45)	(2,788)	(8,679)
(Loss)/profit from operations		(455)	4,182	(7,137)
Finance costs	5(a)	–	(1,984)	(8,755)
(Loss)/profit before taxation	5	(455)	2,198	(15,892)
Income tax	6	83	(874)	3,264
(Loss)/profit and total comprehensive income for the year		<u>(372)</u>	<u>1,324</u>	<u>(12,628)</u>
Attributable to:				
Equity shareholders of the TFRH Investments Group		(372)	1,324	(9,458)
Non-controlling interests		–	–	(3,170)
(Loss)/profit and total comprehensive income for the year		<u>(372)</u>	<u>1,324</u>	<u>(12,628)</u>

The accompanying notes form part of the Financial Information.

COMBINED BALANCE SHEETS

	<i>Section B Note</i>	31 December		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	9	26,571	129,272	196,979
Construction in progress	10	2,397	33,870	95,447
Lease prepayments		–	–	3,289
Intangible assets		–	–	382
Deferred tax assets	11(b)	83	120	4,211
Total non-current assets		<u>29,051</u>	<u>163,262</u>	<u>300,308</u>
Current assets				
Inventories		–	–	2,253
Trade and other receivables	12	51,955	136,446	143,711
Restricted bank deposits		–	–	440
Cash and cash equivalents	13	2,594	1,622	95,092
Total current assets		<u>54,549</u>	<u>138,068</u>	<u>241,496</u>
Current liabilities				
Bank loans	14(a)	–	18,900	117,000
Trade and other payables	15	7,072	78,387	188,254
Income tax payables	11(a)	–	911	827
Total current liabilities		<u>7,072</u>	<u>98,198</u>	<u>306,081</u>
Net current assets/(liabilities)		<u>47,477</u>	<u>39,870</u>	<u>(64,585)</u>
Total assets less current liabilities		<u>76,528</u>	<u>203,132</u>	<u>235,723</u>
Non-current liabilities				
Interest-bearing borrowings	14(b)	26,900	152,180	171,927
Total non-current liabilities		<u>26,900</u>	<u>152,180</u>	<u>171,927</u>
Net assets		<u>49,628</u>	<u>50,952</u>	<u>63,796</u>
Capital and reserves				
Combined capital	16(a)	50,000	50,000	52,503
Reserves		(372)	952	(8,506)
Total equity attributable to equity shareholders of the TFRH Investments Group		<u>49,628</u>	<u>50,952</u>	<u>43,997</u>
Non-controlling interests		<u>–</u>	<u>–</u>	<u>19,799</u>
Total equity		<u>49,628</u>	<u>50,952</u>	<u>63,796</u>

The accompanying notes form part of the Financial Information.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity shareholders of the TFRH Investments Group				
	Combined capital RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total RMB'000
At 1 January 2011	50,000	-	50,000	-	50,000
Total comprehensive income for the year	-	(372)	(372)	-	(372)
At 31 December 2011	<u>50,000</u>	<u>(372)</u>	<u>49,628</u>	<u>-</u>	<u>49,628</u>
At 1 January 2012	50,000	(372)	49,628	-	49,628
Total comprehensive income for the year	-	1,324	1,324	-	1,324
At 31 December 2012	<u>50,000</u>	<u>952</u>	<u>50,952</u>	<u>-</u>	<u>50,952</u>
At 1 January 2013	50,000	952	50,952	-	50,952
Total comprehensive income for the year	-	(9,458)	(9,458)	(3,170)	(12,628)
Capital contribution from equity shareholders	540	-	540	-	540
Capital contribution from a non-controlling shareholder	1,963	-	1,963	22,969	24,932
At 31 December 2013	<u>52,503</u>	<u>(8,506)</u>	<u>43,997</u>	<u>19,799</u>	<u>63,796</u>

The accompanying notes form part of the Financial Information.

COMBINED CASH FLOW STATEMENTS

	Section B Note	Years ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Profit before taxation		(455)	2,198	(15,892)
Adjustments for:				
Depreciation		–	2,428	17,702
Amortisation		–	–	19
Interest income		–	(124)	(101)
Finance costs		–	1,984	8,600
Impairment losses on trade and other receivables		–	480	2,847
		(455)	6,966	13,175
Increase in inventories		–	–	(2,253)
Decrease/(increase) in trade and other receivables		2,038	(88,548)	(2,416)
Increase in trade and other payables		616	29,314	46,315
Cash generated from/(used in) operations		2,199	(52,268)	54,821
Income tax paid		–	–	(911)
Net cash generated from/(used in) operating activities		2,199	(52,268)	53,910
Cash flows from investing activities				
Payment for the purchase of property, plant and equipment		(26,505)	(88,876)	(156,545)
Payment for purchase of intangible assets		–	–	(382)
Payment for lease prepayments		–	–	(3,308)
Proceeds from disposal of property, plant and equipment		–	–	6
Interest received		–	124	101
Net cash used in investing activities		(26,505)	(88,752)	(160,128)

	Section B Note	Years ended 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash flows from financing activities				
Proceeds from bank borrowings		–	39,900	195,400
Repayment of bank borrowings		–	–	(38,900)
Proceeds from loans from related parties		26,900	104,280	23,720
Repayment of loans from related parties		–	–	(62,373)
Capital injection from shareholders		–	–	76,211
Capital injection from a non-controlling shareholder		–	–	18,932
Increase in restricted bank deposits		–	–	(440)
Interest paid		–	(4,132)	(12,417)
Net cash generated from financing activities		<u>26,900</u>	<u>140,048</u>	<u>200,133</u>
Net increase/(decrease) in cash and cash equivalents		2,594	(972)	93,915
Cash and cash equivalents at 1 January		–	2,594	1,622
Effect of foreign exchange rate changes		–	–	(445)
Cash and cash equivalents at 31 December	13	<u>2,594</u>	<u>1,622</u>	<u>95,092</u>

The accompanying notes form part of the Financial Information.

B NOTES TO COMBINED FINANCIAL INFORMATION

1 STATEMENT OF COMPLIANCE

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the TFRH Investments Group has adopted all these new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2013. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2013 are set out in note 21.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

2 BASIS OF PREPARATION AND PRESENTATION

The Target Company was incorporated by Tsinghua Tongfang Artificial Environment Co., Ltd. (“Tongfang Artificial”) as a subsidiary in the PRC in 2002 with limited liability. Tongfang Artificial is a subsidiary of Tsinghua Tongfang Co., Ltd. (“Tongfang”). During 2013, the Target Company issued additional shares to Excel Perfect Investments Limited (“Excel Perfect”), and Tongfang Artificial transferred all of its shareholdings on the Target Company to TFRH Investments. Thereafter, the Target Company is owned as to 75% and 25% of its equity interest by TFRH Investments and Excel Perfect, respectively, as at the date of this report. The TFRH Investments Group is principally engaged in energy management solution market.

TFRH Investments is the immediate holding company of the Target Company and was incorporated in the Cayman Islands with limited liability. The ultimate holding company of the TFRH Investments Group is Tongfang, which produces financial statements available for public use.

As at the date of this report, the Target Company has direct interests in the following subsidiaries, which are private limited companies. The particulars of these subsidiaries are set out below:

Name of entity	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of equity interests attributable to the Target Company	Principal activities
Tongfang Energy-Saving (Xinle) Heating Power Co., Ltd. (“Xinle”) 同方節能(新樂)熱力有限公司 (i)	The PRC 15 October 2013	Registered and paid-up capital of RMB20,000,000	70%	Energy management solution
Tongfang Energy-Saving (Youyi) Heating Power Co., Ltd. (“Youyi”) 同方節能(友誼)熱力有限公司(i)	The PRC 31 October 2013	Registered and paid-up capital of RMB30,000,000	100%	Energy management solution

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

The statutory financial statements of the Target Company and its subsidiaries set out above for the years ended 31 December 2011 and 2012 were audited by ShineWing Certified Public Accountant (信永中和會計師事務所(特殊普通合夥)(i)), a certified public accounting firm registered in the PRC. The statutory financial statements of these entities for the year ended 31 December 2013 are not available yet.

In 2013, certain business which were clearly delineated from the Target Company's energy management solution business (the "Retained Business") were disposed by the Target Company and acquired by Tongfang pursuant to a sale and purchase agreement dated 31 March 2013 entered into between the Target Company and Tongfang. The Retained Business maintained separate accounting records and management personnel, who have been transferred to Tongfang together with the Retained Business. The Financial Information excludes the assets, liabilities and results of operations of the Retained Business whose business is, in the opinion of the directors of the Company, clearly delineated from the existing operations of the Target Company and whose assets, liabilities and results of operations are clearly identifiable.

The directors of the Company are of the view that the Retained Business is clearly different from the existing energy management solution business of the Target Company. The Retained Business is principally engaged in agent sale of ice storage cooling coils and affiliated installation services. The production license and major resources for ice storage cooling coils business are controlled by Tongfang. The customers of the Retained Business are mainly general contracting companies which provide construction services to the end users in the commercial real estate sector. The products sold and installed by the Retained Business are not designed or manufactured by the Target Company, and the operations of the Retained Business do not involve high technology and are relatively simple. In contrast, the existing energy management solution business of the Target Company is principally engaged in providing energy-saving solution in the heating field and cooling field markets based on various self-owned energy saving technology, including heating system technology and intelligent system technology, with dual business models of Engineering, Procurement and Construction ("EPC") and Energy Management Contract ("EMC"). The target customers are the end users in the industrial sector and commercial real estate sector. The heating field business, which is currently the major operation of the Target Company, provides solution for recovery of industrial waste heat primarily through absorption heat pump system, while the cooling field business provides optimized design, controls plan and system implementation of energy centers with ice storage system. During the Relevant Periods, the cooling field business purchased ice storage cooling coils, which form a small component of an ice storage system, from independent third party.

Upon the disposal of the Retained Business, in April 2013, the Target Company issued additional shares to Excel Perfect, and Tongfang Artificial transferred all of its equity interests in the Target Company to TFRH Investments, an indirect wholly owned subsidiary of Tongfang. The Target Company is owned as to 75% and 25% by TFRH Investments and Excel Perfect thereafter.

As TFRH Investments and the Target Company are both controlled by Tongfang, the acquisition of the Target Company by TFRH Investments has been treated as a business combination of entities under common control and the results and financial information of the Target Company are included in the Financial Information as if the acquisition had completed on 1 January 2011. The Retained Business transferred to Tongfang have been excluded in the preparation of the Financial Information as if they had never been within the TFRH Investments Group. The combined statements of comprehensive income, combined statements of changes in equity and combined statement of cash flows for the Relevant Periods include the combined results and cash flows of the companies comprising the TFRH Investments Group as if they constituted as a single reporting unit throughout the Relevant Periods, or since the respective dates of their incorporation of the individual company where this is a shorter period. The combined balance sheets as at 31 December 2011, 2012 and 2013 have been prepared to present the state of affairs of the companies comprising the TFRH Investments Group as at respective dates as if they constituted as a single reporting unit as at those dates.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(b) Use of estimates and judgements

The preparation of Financial Information 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 Information and major sources of estimation uncertainty are discussed in Note 20.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the TFRH Investments Group. The TFRH Investments Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the TFRH Investments Group has power, only substantive rights (held by the TFRH Investments Group and other parties) are considered.

An investment in a subsidiary is consolidated into the combined financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined 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 TFRH Investments Group, and in respect of which the TFRH Investments Group has not agreed any additional terms with the holders of those interests which would result in the TFRH Investments 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 TFRH Investments Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the TFRH Investments Group. Non-controlling interests in the results of the TFRH Investments Group are presented on the face of the combined 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 TFRH Investments Group. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with notes 3(k) and 3(l), depending on the nature of liability.

Changes in the TFRH Investments 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 combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the TFRH Investments 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.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 3(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 3(r)).

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:

Buildings	5–30 years
Office equipment	3–10 years
Motor vehicles	5–10 years

Energy-saving facilities are depreciated over the contract term.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

(e) Intangible assets (other than goodwill)

Intangible assets that are acquired by the TFRH Investments Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(g)).

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. 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:

Software	5 years
----------	---------

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the TFRH Investments 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 TFRH Investments Group

Assets that are held by TFRH Investments Group under leases which transfer to the TFRH Investments 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 TFRH Investments Group are classified as operating leases.

(ii) *Operating lease charges*

Where the TFRH Investments 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.

(g) **Impairment of assets**

(i) *Impairment of trade and other receivables*

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the TFRH Investments Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is 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 TFRH Investments 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
- Construction in progress
- Lease prepayments

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 the 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 of disposal (if measurable) or value in use (if determinable).

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

(h) **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 costs of purchase, costs of conversion 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.

(i) 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 3(p)(ii). 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 reporting period. 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 reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are included under "Trade and other payables".

(j) 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 3(g)), 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.

(k) 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 the effective interest method.

(l) Trade and other payables

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

(m) 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 TFRH Investments Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(n) Employee benefits

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.

(o) 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 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 substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided 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 TFRH Investments Group controls the timing of the 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 TFRH Investments or the TFRH Investments 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 TFRH Investments or the TFRH Investments 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.

(p) Revenue recognition

Revenue is reassured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the TFRH Investments 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 is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) 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; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of 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.

(iii) Service income

Service income is recognised when services are rendered to customers.

(iv) Interest income

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

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the TFRH Investments Group will comply with the conditions attaching to them. Grants that

compensate the TFRH Investments Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the TFRH Investments 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.

(q) Translation of foreign currencies

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 end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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 measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance Sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(r) 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.

(s) Related parties

- (a) A person, or a close member of that person's family, is related to the TFRH Investments Group if that person:
- (i) has control or joint control over the TFRH Investments Group;
 - (ii) has significant influence over the TFRH Investments Group; or
 - (iii) is a member of the key management personnel of the TFRH Investments Group or the TFRH Investments Group's parent.

- (b) An entity is related to the TFRH Investments Group if any of the following conditions applies:
- (i) The entity and the TFRH Investments Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the TFRH Investments Group or an entity related to the TFRH Investments Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) 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 person in their dealings with the entity.

(t) 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 TFRH Investments Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the TFRH Investments Group's various lines of business.

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.

4 SEGMENT REPORTING

The TFRH Investments Group manages its businesses by types of contracts entered into with customers. In a manner consistent with the way in which information is reported internally to the TFRH Investments Group's most senior executive management for the purposes of resource allocation and performance assessment, the TFRH Investments Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Energy Management Contract ("EMC"): This segment provides energy saving related construction and management services, involves investment, construction, operation and maintenance services for energy saving projects which provide heating to end users.

Engineering, Procurement and Construction ("EPC"): This segment only provides energy saving related construction services.

(a) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the TFRH Investments 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, 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, 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 TFRH Investments Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the combined financial statements.

Information regarding the TFRH Investments Group's reportable segments as provided to the TFRH Investments Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011, 2012 and 2013 is set out below:

	EMC			EPC			Total		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue	-	2,682	31,105	-	47,840	79,496	-	50,522	110,601
Reportable segment (loss)/profit	(455)	65	11,095	-	7,025	2,357	(455)	7,090	13,452
Financial costs	-	(1,921)	(7,700)	-	(63)	(1,055)	-	(1,984)	(8,755)
Depreciation and amortisation for the year	-	(2,419)	(17,654)	-	(9)	(48)	-	(2,428)	(17,702)

(b) Reconciliations of reportable segment profit or loss

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
(Loss)/profit for the year			
Reportable segment (loss)/profit	(455)	7,090	13,452
Finance costs	–	(1,984)	(8,755)
Depreciation and amortisation	–	(2,428)	(17,702)
Unallocated head office and corporate expenses	–	(480)	(2,887)
	<u>–</u>	<u>(480)</u>	<u>(2,887)</u>
Combined (loss)/profit before taxation	(455)	2,198	(15,892)
	<u>(455)</u>	<u>2,198</u>	<u>(15,892)</u>

5 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	–	4,132	12,417
Less: interest expense capitalised *	–	(2,148)	(3,817)
	<u>–</u>	<u>1,984</u>	<u>8,600</u>
Foreign exchange loss	–	–	155
	<u>–</u>	<u>–</u>	<u>155</u>
Net finance costs	–	1,984	8,755
	<u>–</u>	<u>1,984</u>	<u>8,755</u>

* The borrowing costs have been capitalised at annual rates of 6.0% and 5.6%-7.0% for the years ended 31 December 2012 and 2013, respectively.

(b) Staff costs

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	178	2,034	10,663
Contributions to defined contribution retirement plans	25	224	1,296
	<u>203</u>	<u>2,258</u>	<u>11,959</u>

Pursuant to the relevant labour rules and regulations in the PRC, the TFRH Investments Group participate in defined contribution retirement benefit schemes (“the Schemes”) organised by the respective local government authorities whereby the TFRH Investments Group is required to make contributions to the Schemes at 20% of the eligible employees’ salaries during the Relevant Periods.

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

(c) Other items

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Depreciation	–	2,428	17,702
Auditors' remuneration	–	–	130
Impairment losses on trade and other receivables	–	480	2,847
Operating lease charge (minimum lease payments) in respect of land and properties	–	532	1,226
	<u>–</u>	<u>532</u>	<u>1,226</u>

6 INCOME TAX

(a) Income tax in the combined statements of comprehensive income represents:

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Provision of PRC income tax for the year	–	911	827
Deferred tax	(83)	(37)	(4,091)
	<u>(83)</u>	<u>874</u>	<u>(3,264)</u>

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
(Loss)/profit before taxation	<u>(455)</u>	<u>2,198</u>	<u>(15,892)</u>
Notional tax calculated at the applicable tax rate	(114)	550	(3,973)
Tax effect of non-deductible expenses	<u>31</u>	<u>324</u>	<u>709</u>
Actual tax (benefits)/expense	<u>(83)</u>	<u>874</u>	<u>(3,264)</u>

The Target Company and its subsidiaries in the PRC are subject to PRC corporate income tax at 25% during the Relevant Periods.

Pursuant to the rules and regulations of the Cayman Islands, the TFRH Investments is not subject to any income tax in the Cayman Islands.

The TFRH Investments Group is not subject to Hong Kong corporate income tax during the Relevant Periods.

7 DIRECTORS' REMUNERATION

The directors believe the presentation of such information is not meaningful for the purpose of this report.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors believe the presentation of the five highest paid employees information is not meaningful for the purpose of this report.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Energy saving facilities RMB'000	Total RMB'000
Cost:					
At 1 January 2011	-	-	-	-	-
Additions	-	40	-	-	40
Transfer from construction in progress	-	-	-	26,531	26,531
At 31 December 2011	-	40	-	26,531	26,571
At 1 January 2012	-	40	-	26,531	26,571
Additions	-	52	119	-	171
Transfer from construction in progress	-	-	-	104,958	104,958
At 31 December 2012	-	92	119	131,489	131,700
At 1 January 2013	-	92	119	131,489	131,700
Additions	15,929	314	1,850	50,023	68,116
Transfer from construction in progress	-	-	-	17,299	17,299
Disposals	-	-	(6)	-	(6)
At 31 December 2013	15,929	406	1,963	198,811	217,109
Accumulated depreciation:					
At 1 January 2011	-	-	-	-	-
Charge for the year	-	-	-	-	-
At 31 December 2011	-	-	-	-	-
At 1 January 2012	-	-	-	-	-
Charge for the year	-	(12)	(4)	(2,412)	(2,428)
At 31 December 2012	-	(12)	(4)	(2,412)	(2,428)
At 1 January 2013	-	(12)	(4)	(2,412)	(2,428)
Charge for the year	(40)	(44)	(136)	(17,482)	(17,702)
At 31 December 2013	(40)	(56)	(140)	(19,894)	(20,130)
Net book value:					
At 31 December 2011	-	40	-	26,531	26,571
At 31 December 2012	-	80	115	129,077	129,272
At 31 December 2013	15,889	350	1,823	178,917	196,979

10 CONSTRUCTION IN PROGRESS

	2011 RMB'000	2012 RMB'000	2013 RMB'000
At 1 January	–	2,397	33,870
Additions	28,928	136,431	78,876
Transferred to property, plant and equipment	<u>(26,531)</u>	<u>(104,958)</u>	<u>(17,299)</u>
At 31 December	<u>2,397</u>	<u>33,870</u>	<u>95,447</u>

11 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Current tax payable in the combined balance sheets represents:

	2011 RMB'000	2012 RMB'000	2013 RMB'000
Provision for the year	<u>–</u>	<u>911</u>	<u>827</u>

(b) Deferred tax assets in the combined balance sheets

(i) Movements of deferred tax assets are as follows:

	<i>Note</i>	2011 RMB'000	2012 RMB'000	2013 RMB'000
At 1 January		–	83	120
Credited to the combined income statement	<i>6(a)</i>	<u>83</u>	<u>37</u>	<u>4,091</u>
At 31 December		<u>83</u>	<u>120</u>	<u>4,211</u>

(ii) The deferred tax assets are arising from:

	2011 RMB'000	31 December 2012 RMB'000	2013 RMB'000
Allowance for doubtful debts	–	120	832
Tax losses carry forwards	<u>83</u>	<u>–</u>	<u>3,379</u>
	<u>83</u>	<u>120</u>	<u>4,211</u>

12 TRADE AND OTHER RECEIVABLES

	31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade receivables	–	48,657	110,771
Bills receivables	–	–	730
Less: allowance for doubtful debts	–	(478)	(3,300)
	–	48,179	108,201
Other receivables			
– amounts due from related parties	47,950	78,978	3,642
– amounts due from third parties	12	7,924	16,127
Loans and receivables	47,962	135,081	127,970
Deposits and prepayments	3,993	1,365	13,944
Gross amount due from customers for contract work	–	–	1,797
Total	<u>51,955</u>	<u>136,446</u>	<u>143,711</u>

- (a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.
- (b) As at 31 December 2013, trade receivables of the TFRH Investments Group amounting to RMB7,532,000 was pledged as collateral for long-term bank loans (see note 14).
- (c) Amounts due from related parties are unsecured, interest free and repayable on demand.
- (d) **Ageing analysis**

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

	31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Current	–	33,179	69,266
Less than 1 year past due	–	15,000	33,935
More than 1 year but less than 2 years past due	–	–	5,000
	–	15,000	38,935
	–	48,179	108,201

Trade debtors and bills receivable are due within 30–180 days from the date of billing. Further details of the TFRH Investments Group's credit policy are set out in note 17(a).

(e) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the TFRH Investments Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivables directly (see note 3(g)).

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

	31 December		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
At 1 January	–	–	478
Impairment loss recognised	–	478	2,822
	<u>–</u>	<u>478</u>	<u>2,822</u>
At 31 December	<u>–</u>	<u>478</u>	<u>3,300</u>

(f) Trade and other receivables that are not impaired

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 12(d)) relate to 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 TFRH Investments 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 TFRH Investments Group does not hold any collateral over these balances.

13 CASH AND CASH EQUIVALENTS

	31 December		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cash at bank and on hand	2,594	1,622	95,092
	<u>2,594</u>	<u>1,622</u>	<u>95,092</u>

14 INTEREST-BEARING BORROWINGS

(a) Bank loans comprise:

	31 December		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Bank loans – secured	–	9,900	89,900
Current portion of long-term bank loans	–	9,000	27,100
	<u>–</u>	<u>9,000</u>	<u>27,100</u>
	<u>–</u>	<u>18,900</u>	<u>117,000</u>

(b) Non-current interest-bearing borrowings comprise:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank loans – secured	–	30,000	106,500
Loans from related parties-unsecured	26,900	131,180	92,527
	26,900	161,180	199,027
Less: current portion of long-term bank loans	–	9,000	27,100
	<u>26,900</u>	<u>152,180</u>	<u>171,927</u>

As at 31 December 2013, bank loans of RMB85,500,000 are secured by trade and bills receivables of RMB7,532,000.

(c) As at 31 December 2012 and 2013, bank loans of RMB39,900,000 and RMB110,900,000 are guaranteed by related parties, respectively.

(d) Effective interest rate per annum at the year end ranged from:

	31 December		
	2011	2012	2013
Bank loans	–	6.63%~6.72%	5.60%~7.04%
Loans from related parties	6.00%	6.00%	6.00%

(e) The borrowings were repayable as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within one year or on demand	–	18,900	117,000
After one year but within two years	–	10,000	28,100
After two years but within five years	26,900	142,180	143,827
	<u>26,900</u>	<u>171,080</u>	<u>288,927</u>

15 TRADE AND OTHER PAYABLES

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to related parties	–	42,460	26,137
Other trade and bills payable	6,456	31,469	45,323
	<u>6,456</u>	<u>73,929</u>	<u>71,460</u>
Other payables and accruals			
– amounts due to related parties	616	4,223	97,181
– amounts due to third parties	–	235	19,613
	<u>–</u>	<u>4,458</u>	<u>116,794</u>
Financial liabilities measured at amortised cost	<u>7,072</u>	<u>78,387</u>	<u>188,254</u>

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:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	6,456	73,900	70,744
Over 1 year but within 2 years	–	29	687
Over 2 years but within 3 years	–	–	29
	<u>6,456</u>	<u>73,929</u>	<u>71,460</u>

The amounts due to related parties are interest free, unsecured and repayable on demand.

16 CAPITAL AND RESERVES

(a) Combined capital

For the purpose of this Financial Information, the balance of combined capital of the TFRH Investments Group as at 31 December 2011, 2012 and 2013 represented the aggregate of the share capital and capital reserves of the companies now comprising the TFRH Investments Group as at the respective dates, after elimination of investment costs in the Target Company recorded by TFRH Investments.

(b) Capital management

The TFRH Investments Group's primary objectives when managing capital are to safeguard the TFRH Investments Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The TFRH Investments Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

The TFRH Investments Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total assets. The TFRH Investments Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios of the TFRH Investments Group as at 31 December 2011, 2012 and 2013 are 32.2%, 56.8% and 53.3%, respectively.

There were no changes in the TFRH Investments Group's approach to capital management compared with previous years. Companies comprising the TFRH Investments Group are not subject to externally imposed capital requirements.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

The TFRH Investments 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 TFRH Investments 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 TFRH Investments 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 TFRH Investments Group does not obtain collateral from customers.

The TFRH Investments Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the TFRH Investments Group has significant exposure to individual customers. As at 31 December 2011, 2012 and 2013, 100%, 100% and 92% of trade receivables was due from the TFRH Investments Group's five largest customers, respectively.

(b) Liquidity risk

The TFRH Investments Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The TFRH Investments Group's policy is to regularly monitor current and expected liquidity requirements 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 date of the TFRH Investments Group's 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 balance sheet date) and the earliest date the TFRH Investments Group can be required to pay:

31 December 2011

	Contractual undiscounted cash flow					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Interest-bearing borrowings	26,900	32,806	1,651	1,750	29,405	-
Trade and other payables	7,072	7,072	7,072	-	-	-
Total	33,972	39,878	8,723	1,750	29,405	-

31 December 2012

	Contractual undiscounted cash flow					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Interest-bearing borrowings	171,080	194,299	29,059	19,680	145,560	-
Trade and other payables	78,387	78,387	78,387	-	-	-
Total	249,467	272,686	107,446	19,680	145,560	-

31 December 2013

	Contractual undiscounted cash flow					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Interest-bearing borrowings	288,927	316,962	133,510	127,294	56,158	-
Trade and other payables	188,254	188,254	188,254	-	-	-
Total	477,181	505,216	321,764	127,294	56,158	-

(c) Interest rate risk

The interest rates of the TFRH Investments Group's bank borrowings and loans from related parties are disclosed in Note 14(d).

It is estimated that a general increase or decrease of 100 basic points in interest rates, with all other variables held constant, would not have significant financial impact on the TFRH Investments Group.

(d) Fair values

During the Relevant Periods, no financial instruments of the TFRH Investments Group were measured at fair value across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures.

In respect of the TFRH Investments Group's cash and cash equivalents, trade and other receivables (inclusive of amounts due from related parties), and trade and other payables (inclusive of amounts due to related parties), the carrying amounts approximated fair values during the Relevant Periods due to the relatively short term nature of these financial assets or liabilities.

In respect of the TFRH Investments Group's borrowings, the carrying amounts were not materially different from their fair values during the Relevant Periods. The fair value of borrowings were estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

18 COMMITMENTS**(a) Capital commitments**

Commitments in respect of property, plant and equipment as at the balance sheet date not provided for in the combined financial statements were as follows:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	38,129	6,656	260,689
	<u>38,129</u>	<u>6,656</u>	<u>260,689</u>

(b) Operating lease commitments

Commitments in respect of properties under operating leases as at the balance sheet date, not provided for in the combined financial statements were as follows:

	31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	–	687	1,554
After 1 year but within 5 years	–	–	7,716
	<u>–</u>	<u>687</u>	<u>9,270</u>

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transaction with related parties

During the Relevant Periods, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Tongfang Kawasaki Advanced energy-saving machine Co., Ltd.* ("Tongfang Kawasaki") (同方川崎空調設備有限公司)	Associate of Tong Fang
Tsinghua Tongfang Artificial Environment Co., Ltd.* ("Tongfang Artificial") (同方人工環境有限公司)	Fellow Subsidiary

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

(b) Significant related party transactions

	Years ended 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Purchases from Tongfang Kawasaki	12,510	88,089	67,954
Proceeds from loans from Tongfang Artificial	26,900	104,280	23,720
Repayment of loans to Tongfang Artificial	–	–	(62,373)
	<u> </u>	<u> </u>	<u> </u>

(c) Balances with related parties

	Note	31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade and other receivables	12	<u>47,950</u>	<u>78,978</u>	<u>3,642</u>
Loans from related parties	14	<u>26,900</u>	<u>131,180</u>	<u>92,527</u>
Trade and other payables	15	<u>616</u>	<u>46,683</u>	<u>123,318</u>

20 CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE TFRH INVESTMENTS GROUP'S ACCOUNTING POLICIES**Key sources of estimation uncertainty**

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

(i) Impairment of trade and other receivables

The management determines the impairment of trade and other 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 and other receivables at the end of the reporting period.

(ii) 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 TFRH Investments 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.

(iii) 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 TFRH Investments's subsidiaries as the TFRH Investments 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.

(iv) Construction contracts

As explained in policy note 3(p)(ii), 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 TFRH Investments Group's recent experience and the nature of the construction activity undertaken by the TFRH Investments Group, the TFRH Investments 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, 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.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these combined financial statements. These included the following which may be relevant to the TFRH Investments Group's operations and financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, <i>Investment entities</i>	1 January 2014
Amendments to HKAS 32, <i>Financial instruments:</i> <i>Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to HKAS 36, <i>Recoverable amount disclosures for non-financial assets</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2010-2011 Cycle</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2011-2013 Cycle</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	Unspecified

The TFRH Investments Group in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 TFRH Investments Group's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the TFRH Investments Group in respect of any period subsequent to 31 December 2013. No dividend or distribution has been declared or made by any companies comprising the TFRH Investments Group in respect of any period subsequent to 31 December 2013.

Your faithfully
KPMG
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON TFRH INVESTMENTS GROUP

Set out below is the management discussion and analysis on TFRH Investments Group for the period from the year ended 31 December 2011 to the year ended 31 December 2013 (the “Relevant Periods”) based on the accountants’ report of TFRH Investments Group as set out in Section I of this Appendix IIB.

Overview

The Target Company had been treated, for accounting purpose, as a wholly-owned subsidiary of the TFRH Investments (see “BASIS OF PREPARATION AND PRESENTATION” set out in Section 1 of this Appendix IIB), until April 2013 where Valuworth through Excel Perfect acquired the 25% of equity interest in the Target Company (by way of capital injection by Excel Perfect into the Target Company) for approximately HK\$23.8 million (the “Initial Investment”). Following the Initial Investment, TFRH Investments owns 75% of equity interest in the Target Company and continues to exercise control over the Target Company, due to the fact that: i) it has majority voting power over the Target Company; ii) it has exposure or rights to variable returns from its involvement with the Target Company; and iii) it has the ability to use its power to determine the amount of those returns, and as such, it continues to consolidate the Target Company in its financial statements.

As a result, for the period from the year ended 31 December 2011 to the year ended 31 December 2012, the financial information of TFRH Investments Group mirrors the financial information of the Target Group as set out in Section 1 of Appendix IIA to this circular. For the year ended 31 December 2013, save for the balances of the non-controlling interest that reflect the 25% of equity interest in the Target Company held by Excel Perfect as a result of the Initial Investment, the Directors are of the view that the financial information of TFRH Investments Group mirrors to a material extent the financial information of the Target Group as set out in Section 1 of Appendix IIA to this circular for the period.

Business review

Revenue

The revenue of TFRH Investments Group during the Relevant Periods was all derived from the energy management solution business, which can be divided into two segments, namely EMC and EPC. EMC is the segment that provides energy saving related construction and management services, and involves investment, construction, operation and maintenance services for energy saving projects which provide heating to end users; whereas EPC is the segment that only provides energy saving related construction services. Set forth below is the revenue of TFRH Investments Group during the Relevant Periods:

Segments	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
EMC revenue	–	2,682	31,105
EPC revenue	–	47,840	79,496
	–	50,522	110,601

For the year ended 31 December 2012, the revenue of TFRH Investments Group amounted to approximately RMB50.5 million which was contributed by 1 EMC project that was under construction in 2011 and completed its construction in 2012, and 1 EPC project that completed its construction in 2012.

For the year ended 31 December 2013, the revenue of TFRH Investments Group amounted to approximately RMB110.6 million, with an increase of approximately RMB60.1 million or 119.0% compared to the year ended 31 December 2012, which was due to the increase in completed construction projects in 2013 as compared to the previous year. In 2013, the construction of 4 EMC projects and 2 EPC projects was completed.

Going forward, with more contracts completing the phase of the construction and entering into revenue sharing period, the revenue of TFRH Investments Group will increase.

Cost of Sales

For the year ended 31 December 2012, the cost of sales of TFRH Investments Group amounted to approximately RMB42.9 million, with an increase of 100% compared to the year ended 31 December 2011.

Cost of sales of TFRH Investments Group increased from approximately RMB42.9 million for the year ended 31 December 2012 to approximately RMB103.2 million for the year ended 31 December 2013.

Such increase was mainly attributable to an overall increase in completion of construction projects.

Selling expenses

Selling expenses of TFRH Investments Group increased from approximately RMB410,000 for the year ended 31 December 2011 to approximately RMB821,000 for the year ended 31 December 2012 and to approximately RMB9,589,000 for the year ended 31 December 2013. The increase was primarily due to an increase in staff costs, business development costs and transportation costs associated with the substantial expansion of TFRH Investments Group's business.

Administrative expenses

Administrative expenses of TFRH Investments Group increased from approximately RMB45,000 for the year ended 31 December 2011 to approximately RMB2,788,000 for the year ended 31 December 2012 and to approximately RMB8,679,000 for the year ended 31 December 2013. The increase was primarily due to an increase in administrative staff costs and projects administrative expenditures.

Finance cost

Finance cost of TFRH Investments Group for the year ended 31 December 2011 is unrecorded as the interest expenses in respect of the projects under construction in 2011 were capitalized. Finance cost of TFRH Investments Group increased from approximately RMB1,984,000 for the year ended 31 December 2012 to approximately RMB8,755,000 for the year ended 31 December 2013. The increase was primarily due to the increase of approximately RMB6,616,000 in interest expenses on borrowings as a result of increase in interest-bearing borrowings.

Income tax expenses

TFRH Investments Group has recorded tax expenses of approximately RMB874,000 for the year ended 31 December 2012, as compared to tax income of approximately RMB83,000 for the year ended 31 December 2011.

For the year ended 31 December 2013, TFRH Investments Group has recorded tax income of approximately RMB3,264,000, as compared to a tax expenses of approximately RMB874,000 for the year ended 31 December 2012.

The record of tax expense for the year ended 31 December 2012 was mainly due to TFRH Investments Group making profit in the year 2012, whereas the records of tax income for the years ended 31 December 2011 and 2013 were mainly due to the recognition of deferred tax assets on tax losses carrying forward.

Financial Position*Capital Structure*

The majority of the total assets of TFRH Investments Group were (i) property, plant and equipment (which includes energy saving facilities); (ii) trade and other receivables; (iii) constructions in progress and (iv) cash and cash equivalents. Total assets of TFRH Investments Group were approximately RMB83,600,000, RMB301,330,000 and RMB541,804,000 as at 31 December 2011, 2012 and 2013, respectively.

The liabilities of TFRH Investments Group mainly include (i) trade and other payables; (ii) long-term interest-bearing borrowings; and (iii) short-term bank loans. Total liabilities of TFRH Investments Group were approximately RMB33,972,000, RMB250,378,000 and RMB478,008,000 as at 31 December 2011, 2012 and 2013, respectively.

The net asset values of TFRH Investments Group as at 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Net assets	49,628	50,952	63,796

As at 31 December 2011, 2012 and 2013, the trade and bills receivables (net of allowance for doubtful debt) were nil, approximately RMB48.2 million and approximately RMB108.2 million, respectively. Out of the outstanding receivables of approximately RMB108.2 million as at 31 December 2013, approximately RMB39.4 million was settled as at 30 April 2014.

No financial instruments for hedging purposes have been used.

Liquidity and financial resources, gearing

TFRH Investments Group generally finances its operations with amounts due from a related parties and bank loans (denominated in RMB). The balance of shareholder loan due to the Controlling Shareholder and/or its associates by TFRH Investments Group as at 31 December 2013 amounted to approximately RMB92,527,000. The shareholder loan is unsecured, fixed rate interest-bearing and no fixed terms of repayment. Upon Completion, TFRH Investments Group will become indirect wholly-owned subsidiaries of the Company. Therefore, any continuing transactions between TFRH Investments Group and the Controlling Shareholder (and its associates other than the Group) following Completion, including the loan provided by the Controlling Shareholder (and its associates other than the Group) will become continuing connected transactions of the Group under the Listing Rules.

As at 31 December 2011, 2012 and 2013, the aggregate of banks loans and interest bearing borrowings were approximately RMB26.9 million, approximately RMB171.1 million and approximately RMB288.9 million respectively. The increase in banks loans and interest bearing borrowings during the period is due to TFRH Investments Group's expansion in EMC and EPC business, which is reflected in the significant growth in revenue derived from EMC and EPC contracts.

As at 31 December 2013, bank loans of approximately RMB85.5 million are secured by trade and bills receivables amounting to approximately RMB7.5 million. As at 31 December 2012 and 2013, bank loans of approximately RMB39.9 million and approximately RMB110.9 million respectively are guaranteed by related parties.

As at 31 December 2011, 2012 and 2013, TFRH Investments Group's gearing ratios (defined as total debts divided by total assets) were approximately 32.2%, 56.8% and 53.3% respectively.

Commitments

(a) Capital commitments

TFRH Investments Group had capital commitments in respect of properties under development, construction in progress, investment properties as at 31 December 2011, 2012 and 2013 not provided for in the combined financial statements are as follows:

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Contracted for	<u>38,129</u>	<u>6,656</u>	<u>260,689</u>

The amount of capital commitments for the year ended 31 December 2011, 2012 and 2013 were approximately RMB38.1 million, RMB6.7 million and RMB260.7 million respectively. The decrease in the capital commitments from RMB38.1 million for the year ended 31 December 2011 to RMB6.7 million for the year ended 31 December 2012 because TFRH Investments Group had less capital commitments contracted for as at 31 December 2012.

The increase in the capital commitments from RMB6.7 million for the year ended 31 December 2012 to RMB260.7 million for the year ended 31 December 2013 is due to a new EMC project contracted for amounting to an aggregate of RMB200 million.

The Directors expect that the capital commitment will be financed by the internally generated funds and available financing facilities from related parties and banks.

Foreign exchange risk

TFRH Investments Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Most of TFRH Investments Group's monetary assets and liabilities are also denominated in RMB. Therefore, TFRH Investments Group is considered to have no significant foreign exchange risk.

Contingent liabilities

As at 31 December 2011, 2012 and 2013 respectively, TFRH Investments Group had no material contingent liabilities.

Subsidiaries

On 15 October 2013, Tongfang Energy Saving (XinLe) Heating Power Co., Ltd was established, being jointly funded by the Target Company and XinLe Yimin

Heating Power Co., Ltd with an initial registered capital of RMB20 million, of which the Target Company contributed RMB14 million and XinLe Yimin Heating Power Co., Ltd contributed RMB6 million, representing 70% and 30% of the registered capital respectively.

On 31 October 2013, Tongfang Energy Saving (Youyi) Heating Power Co., Ltd was established, being funded by the Target Company with an initial registered capital of RMB30 million, representing 100% of the registered capital.

Employees and remuneration policies

Pursuant to the relevant labor rules and regulations in the PRC, TFRH Investments Group participates in defined contribution retirement benefit schemes (“the Schemes”) organized by the respective local government authorities whereby TFRH Investments Group is required to make contributions to the Schemes at 20% of the eligible employees’ salaries during the Relevant Periods.

The number of employees of TFRH Investments Group has increased significantly over the Relevant Periods, as such number is below 5 for the year ended 31 December 2011, which increased to over 25 and approximately 130 for the years ended 31 December 2012 and 31 December 2013 respectively. The staff costs as at 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December 2011 <i>RMB'000</i>	Year ended 31 December 2012 <i>RMB'000</i>	Year ended 31 December 2013 <i>RMB'000</i>
Salaries, wages and other benefits	178	2,034	10,663
Contributions to defined contribution retirement plans	25	224	1,296
	203	2,258	11,959

The aggregate of salaries, wages and other benefits and contributions to defined contribution retirement plans amounted to approximately RMB0.2 million, RMB2.3 million and RMB12.0 million respectively. The increases over the Relevant Periods are due to staff number and salary increment as a result of business expansion.

TFRH Investments Group has no material obligation for the payment of pension benefits other than the annual contributions described above.

1. ACCOUNTANTS' REPORT OF EXCEL PERFECT

The following is the full text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2014

The Board of Directors
Technovator International Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Excel Perfect Investments Limited ("Excel Perfect") comprising the balance sheet of Excel Perfect as at 31 December 2013 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013 (the "Period"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular issued by Technovator International Limited (the "Company") dated 24 June 2014 (the "Circular") in connection with the proposed acquisition of Excel Perfect by the Company.

Excel Perfect was incorporated on 28 February 2013 with limited liability in Hong Kong. In April 2013, Excel Perfect acquired 25% equity interest (by way of capital injection) in Tongfang Energy Saving Engineering Technology Co., Ltd. (the "Target Company"). Pursuant to the Sale and Purchase Agreement entered by the Company with the shareholder of Excel Perfect on 17 April 2014, the Company will acquire 100% equity interest in Excel Perfect, in turn acquire 25% equity interest in the Target Company. Excel Perfect has not carried on any business since the date of its incorporation save for the aforementioned investment in the Target Company.

As of the date of this report, no audited financial statements have been prepared for Excel Perfect, as the first audited financial statements of Excel Perfect for the period ended 31 December 2013 is not available yet.

Excel Perfect has adopted 31 December as its financial year end date.

The directors of the Excel Perfect have prepared the financial statements of Excel Perfect for the Period (the "Underlying Financial Statements") on the same basis and accounting policies as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for the Period were audited by

KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institution of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Excel Perfect in respect of any period subsequent to 31 December 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Excel Perfect as at 31 December 2013 and of Excel Perfect’s results and cash flows for the Period then ended.

APPENDIX IIC FINANCIAL INFORMATION OF EXCEL PERFECT
--

A FINANCIAL INFORMATION

STATEMENT OF COMPREHENSIVE INCOME

	<i>Section B Note</i>	Period from 28 February 2013 (date of incorporation) to 31 December 2013 HKD'000
Administrative expenses		(13)
Loss from operations		(13)
Share of loss of an associate		(3,142)
Loss before taxation		(3,155)
Income tax	3	–
Loss and total comprehensive income for the period		(3,155)

The accompanying notes form part of the Financial Information.

APPENDIX IIC FINANCIAL INFORMATION OF EXCEL PERFECT
--

BALANCE SHEET

	<i>Section B Note</i>	31 December 2013 <i>HKD'000</i>
Non-current asset		
Investment in an associate	5	20,662
Total non-current asset		20,662
Current assets		
Other receivables		5
Cash and cash equivalents	6	168
Total current assets		173
Net assets		20,835
Capital and reserves		
Share capital		–
Reserves		20,835
Total equity		20,835

The accompanying notes form part of the Financial Information.

APPENDIX IIC	FINANCIAL INFORMATION OF EXCEL PERFECT
---------------------	---

STATEMENT OF CHANGES IN EQUITY

Period from 28 February 2013 (date of incorporation) to 31 December 2013

	Share Capital <i>HKD'000</i>	Share Premium <i>HKD'000</i>	Accumulated losses <i>HKD'000</i>	Total <i>HKD'000</i>
At the beginning of the period	-	-	-	-
Total comprehensive income for the period	-	-	(3,155)	(3,155)
Capital contribution from shareholders	-	23,990	-	23,990
	<hr/>	<hr/>	<hr/>	<hr/>
At the end of the period	-	23,990	(3,155)	20,835
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of the Financial Information.

CASH FLOW STATEMENT

	<i>Section B Note</i>	Period from 28 February 2013 (date of incorporation) to 31 December 2013 HKD'000
Cash flows from operating activities		
Loss before taxation		(3,155)
Adjustments for:		
Share of loss of an associate		3,142
		(13)
Increase in other receivables		(5)
Cash used in operations		(18)
Income tax paid		–
Net cash used in operating activities		(18)
Cash flows from investing activities		
Payment for investment in an associate		(23,804)
Net cash used in investing activities		(23,804)
Cash flows from financing activities		
Capital contribution from shareholders		23,990
Net cash generated from financing activities		23,990
Net increase in cash and cash equivalents		168
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period	6	168

The accompanying notes form part of the Financial Information.

B NOTES TO FINANCIAL INFORMATION

1 STATEMENT OF COMPLIANCE

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, Excel Perfect has adopted all these new and revised HKFRSs to the Period, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2013. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2013 are set out in note 9.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Financial Information is presented in Hong Kong dollars (“HKD”), rounded to the nearest thousand. It is prepared on the historical cost basis.

(b) Use of estimates and judgements

The preparation of Financial Information 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 Information.

(c) Associates

An associate is an entity in which Excel Perfect has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of Excel Perfect’s share of the acquisition-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in Excel Perfect’s share of the investee’s net assets and any impairment loss relating to the investment (see note 2(f)). Any acquisition-date excess over cost, Excel Perfect’s share of the post-acquisition,

post-tax results of the investees and any impairment losses for the year are recognised in profit or loss in the statement of comprehensive income, whereas Excel Perfect's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income in the statement of comprehensive income.

When Excel Perfect's share of losses exceeds its interest in the associate, Excel Perfect's interest is reduced to nil and recognition of further losses is discontinued except to the extent that Excel Perfect has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, Excel Perfect's interest is the carrying amount of the investment under the equity method together with Excel Perfect's long-term interests that in substance form part of Excel Perfect's net investment in the associate.

Unrealised profits and losses resulting from transactions between Excel Perfect and its associates are eliminated to the extent of Excel Perfect's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when Excel Perfect ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(d) 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(f)).

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.

(e) 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(f)), 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.

(f) **Impairment of assets**

(i) *Impairment of trade and other receivables*

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Excel Perfect about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is 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 Excel Perfect 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 an impairment loss previously recognised no longer exists or may have decreased:

- Investment in an associate;
- Goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill 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 of disposal 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 the 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 of disposal (if measurable) or value in use (if determinable).

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment 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.

(g) **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.

(h) Employee benefits

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.

(i) 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 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 substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided 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, Excel Perfect controls the timing of the 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Excel Perfect 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, Excel Perfect 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.

(j) Revenue recognition

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

(k) Translation of foreign currencies

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 end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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 measured.

(l) Related parties

(a) A person, or a close member of that person's family, is related to Excel Perfect if that person:

- (i) has control or joint control over Excel Perfect;
- (ii) has significant influence over Excel Perfect; or
- (iii) is a member of the key management personnel of Excel Perfect or Excel Perfect's parent.

(b) An entity is related to Excel Perfect if any of the following conditions applies:

- (i) The entity and Excel Perfect are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

APPENDIX IIC	FINANCIAL INFORMATION OF EXCEL PERFECT
---------------------	---

- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either Excel Perfect or an entity related to Excel Perfect.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) 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 person in their dealings with the entity.

3 INCOME TAX

No provision for Hong Kong profits tax has been made as Excel Perfect has no assessable income for the year.

4 DIRECTORS' REMUNERATION

The directors did not receive any remuneration from the Board.

5 INVESTMENT IN AN ASSOCIATE

	31 December 2013 <i>HKD'000</i>
Share of net assets	18,193
Goodwill	2,469
	20,662

Excel Perfect invested HKD23,804,000 in the Target Company on 30 April 2014 through capital injection in cash. The particulars of the associate are set out below:

Name of entity	Place of incorporation and operation	Particular of registered/issued and paid-up capital	Percentage of equity interests attributable to Excel Perfect	Principal activities
Tongfang Energy Saving Engineering Technology Co., Ltd. (同方節能工程技術有限公司)(i)	The People's Republic of China	Registered and paid-up capital of RMB66,666,667	25%	Energy management solution

- (i) The official name of the entity is in Chinese. The English translation of the name is for reference only.

APPENDIX IIC FINANCIAL INFORMATION OF EXCEL PERFECT
--

Summarised financial information of the associate and reconciled to the carrying amounts in the financial statements, are disclosed below:

	31 December 2013 <i>HKD'000</i>
Gross amounts of the associate's	
Current assets	207,800
Non-current assets	377,747
Current liabilities	(289,774)
Non-current liabilities	(216,260)
Equity	79,513
Non-controlling interest	6,741
Equity attributable to equity shareholders	72,772
Revenue	138,442
Net loss	(15,834)
Net loss attributable to equity shareholders	(14,944)
Non-controlling interest	(890)
Reconciled to Excel Perfect's interest in the associate	
Gross amounts of net assets of the associate attributable to the equity shareholders	72,772
Excel Perfect's effective interest	25%
Excel Perfect's share of net assets of the associate	18,193
Good will	2,469
	20,662
	20,662
6 CASH AND CASH EQUIVALENTS	

	31 December 2013 <i>HKD'000</i>
Cash at bank and on hand	168
	168

7 CAPITAL AND RESERVES

(a) Share Capital

	Number of shares	Amount <i>HKD</i>
Authorised:		
Ordinary shares of HKD1 each	10,000	
	10,000	
Issued and fully paid:		
At 28 February 2013 (date of incorporation)	1	1
and at 31 December 2013	1	1

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 Excel Perfect. All ordinary shares rank equally with regard to Excel Perfect's residual assets.

(b) **Share Premium**

The application of the share premium account is governed by sections 48B of the Hong Kong Companies Ordinance.

8 FINANCIAL RISK AND CAPITAL MANAGEMENT

Credit risk arises from cash and cash equivalents. As Excel Perfect's cash at bank and time deposits are placed with reputable banks, the corresponding credit risk is relatively low.

Management has considered that there is no material exposure of market risk, liquidity risk and capital risk.

The carrying value of financial assets approximates to their fair values.

9 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of this Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in this Financial Information. These included the following which may be relevant to Excel Perfect's operations and financial position.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, <i>Investment entities</i>	1 January 2014
Amendments to HKAS 32, <i>Financial instruments: Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to HKAS 36, <i>Recoverable amount disclosures for non-financial assets</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2010-2011 Cycle</i>	1 January 2014
<i>Annual Improvements to HKFRSs 2011-2013 Cycle</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	Unspecified

Excel Perfect in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 Excel Perfect's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by Excel Perfect in respect of any period subsequent to 31 December 2013. No dividend or distribution has been declared or made by Excel Perfect in respect of any period subsequent to 31 December 2013.

Your faithfully
KPMG
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON EXCEL PERFECT

Set out below is the management discussion and analysis of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013 based on the accountants' report of Excel Perfect as set out in Section I of this Appendix IIC.

Overview

In April 2013, Valueworth through Excel Perfect acquired the 25% of equity interest in the Target Company (by way of capital injection by Excel Perfect into the Target Company) for approximately HK\$23.8 million. Accordingly, Excel Perfect owns 25% of equity interest in the Target Company and has certain influence over the Target Company, including participation in the financial and operating policy decisions in the Target Company. Therefore, Excel Perfect accounts for its investment in the Target Company under equity method in its financial statements.

As a result, for the year ended 31 December 2013, save for the balances of the sharing of profit or loss of an associate in the statement of comprehensive income and balances of the investment in an associate in the balance sheet of the Excel Perfect as a result of the 25% of equity interest in the Target Company, the Directors are of the view that there are no material assets and/or liabilities of Excel Perfect.

Business review

Revenue

There was no revenue of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013 as there're no substantive operations apart from its 25% of equity interest in the Target Company.

Administrative expense

Administrative expenses of approximately HK\$13,000 for the period were incurred during the period for the incorporation of Excel Perfect.

Share of loss of an associate

As a result of its 25% of equity interest in the Target Company, Excel Perfect accounts for its investment in the Target Company under equity method in its financial statements and shares the profit or loss of the Target Company for the period. Accordingly, based on the loss for the year of the Target Company of approximately HK\$15.8 million, Excel Perfect shares loss of approximately HK\$3.1 million.

Income tax expenses

There were no income tax expenses of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Financial Position

Capital Structure

The majority of the total assets of Excel Perfect were (i) investment in an associate; and (ii) cash and cash equivalents;. Total assets of Excel Perfect were approximately HK\$20.8 million as at 31 December 2013.

There were no liabilities of Excel Perfect as at 31 December 2013.

Commitments

Capital Commitments

There were no capital commitments of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Investments

There were no significant investments of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013 apart from its 25% of equity interest in the Target Company.

Charges on assets

There were no charges on assets of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Gearing ratio

Gearing ratio of Excel Perfect cannot be obtained as Excel Perfect did not have any debt for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Foreign exchange risk

The Directors consider that there is no material foreign exchange risk for Excel Perfect as there're no substantive operations apart from its 25% of equity interest in the Target Company.

Contingent liabilities

There were no contingent liabilities of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Subsidiaries

There were no material acquisitions and disposals of subsidiaries of Excel Perfect for the period from 28 February 2013 (date of incorporation) to 31 December 2013.

Employees and remuneration policies

The Directors consider that the employees and remuneration policies are not applicable to Excel Perfect as there're no substantive operations apart from its 25% of equity interest in the Target Company.

**VALUATION REPORT FOR
THE VALUATION OF EQUITY IN TONGFONG ENERGY SAVING
ENGINEERING TECHNOLOGY CO., LTD.* TO BE PURCHASED
BY TECHNOVATOR INTERNATIONAL LIMITED
BY PROPOSED ISSUE OF SHARES**

ZHUOXINDAHUA VALUATION REPORT ZI (2014) NO. 2007

**BEIJING ZHUOXINDAHUA APPRAISAL CO., LTD.*
20 JUNE 2014**

CONTENTS**REGISTERED ASSETS APPRAISAL PERSONNEL STATEMENT****VALUATION REPORT EXTRACT****VALUATION REPORT TEXT**

1. ENTRUSTING PARTY, ENTITY BEING ASSESSED AND USAGE OF OTHER VALUATION REPORT USERS AGREED UNDER THE BUSINESS AGREEMENT
2. PURPOSE OF VALUATION
3. SUBJECT AND SCOPE OF VALUATION
4. TYPES OF VALUE AND ITS DEFINITION
5. VALUATION DATE
6. VALUATION BASIS
7. VALUATION METHODS
8. IMPLEMENTATION PROCESS OF THE VALUATION PROCEDURES AND THE STATUS
9. VALUATION ASSUMPTIONS
10. VALUATION CONCLUSION
11. EXPLANATORY NOTES ON SPECIFIC MATTERS
12. EXPLANATION NOTES ON RESTRICTIONS OF USE OF VALUATION REPORT
13. DATE OF VALUATION REPORT

REGISTERED ASSETS APPRAISAL PERSONNEL STATEMENT

The registered assets appraisal personnel of Beijing Zhuoxindahua Appraisal Co., Ltd.* made the following statements for the valuation report in relation to the valuation of equity in Tongfong Energy Saving Engineering Technology Co., Ltd.* to be purchased by Technovator International Limited by proposed issue of Shares:

1. We possess the relevant qualifications. We perform the asset valuation for the business in accordance with the relevant laws and regulations and assets valuation standards based on independent, objective and fair principles. The content stated in the valuation report is objective with reference to the information collected during the valuation process. We bear corresponding legal responsibility for the reasonability of the conclusions of the valuation.
2. The list of assets and liabilities related to the valuation object is reported, signed and sealed and confirmed by the entrusting party and the entity being assessed. The entrusting party and the related parties should be responsible for the truth, legality and completeness of the information provided and proper usage of the valuation report.
3. We do not have any existing or expected interest relationship with the related parties or the valuation object in the valuation report. We hold no prejudice against the related parties.
4. We have performed on-site investigation on the valuation object and its related assets. We have given the required concern over the legal ownership of the valuation object and its related assets and examined the legal ownership of the valuation object and its related assets in which it involves, and truthfully disclosed the issues found. We have also submitted to the entrusting party and the related parties to take action to complete the ownership in order to fulfill the requirement of issuing the valuation report.
5. The analysis, judgments and conclusions in the valuation report issued by us are subject to the assumptions and limitations in the valuation report. The valuation report users should give sufficient consideration to the assumptions, limitations and explanatory notes to special matters and their effects on the conclusions of the valuation.

VALUATION REPORT EXTRACT

Beijing Zhuoxindahua Appraisal Co., Ltd.* was engaged by Technovator International Limited to perform valuation for the entire equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.*. The material information and valuation conclusions in the text of the valuation report are now extracted as follows.

Economic Activity: Technovator International Limited proposed to issue Shares to purchase the equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.*.

Valuation Purpose: to provide fair reflection for the market value of the entire equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.* on the base date of assets valuation which Technovator International Limited is to purchase by the proposed issue of Shares and give valuation reference advice for the economic behavior.

Subject and scope of valuation: the subject of valuation is the entire equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.* designated by the entrusting party; the valuation scope is the book value of the assets and liabilities on the Valuation Date. The carrying amount of total assets was approximately RMB423.3 million, of which current assets was approximately RMB146.9 million and non-current assets was approximately RMB276.4 million; the carrying amount of liabilities total was approximately RMB373.4 million, of which current liabilities was approximately RMB184.6 million and non-current liabilities was approximately RMB188.8 million. The carrying amount of net assets was approximately RMB50 million.

Type of value: the market value under the premise of going-concern of the subject of valuation.

Base date of assets valuation: 31 March 2014 (the "Valuation Date").

Valuation method: income method.

Valuation conclusion: this valuation report adopted the income method. Under the premise that the valuation assumptions and limitations established, the carrying amount before the valuation of the entire equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.* as at the Valuation Date was approximately RMB50 million; the valuation value was approximately RMB380.8 million; the value-added valuation was approximately RMB330.8 million; and value-added ratio was approximately 661.87%.

Please see the valuation report for the details of valuation conclusion.

The useful life of the valuation conclusion: the useful life of this valuation conclusion is one year commencing from the Valuation Date. Assets should be evaluated again after a year.

Specific matters affecting the valuation conclusion: the attention of the user of the valuation report is drawn to the effect of the special matters of the text of report on the valuation conclusion.

The above content is extracted from the text of the valuation report. If you wish to understand the details of the items of this valuation report and reasonably comprehend the valuation conclusions, you should read the text of the valuation report.

VALUATION REPORT TEXT

Zhuoxindahua Valuation Report Zi (2014) No. 2007

Technovator International Limited:

Beijing Zhuoxindahua Appraisal Co., Ltd.* was engaged by the Company to perform valuation on the market value of the entire equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.* on 31 March 2014 in which the equity interest in Tongfong Energy Saving Engineering Technology Co., Ltd.* are to be purchased by Technovator International Limited by proposed issue of Shares. The valuation of the assets is reported as follows.

1. ENTRUSTING PARTY, ENTITY BEING ASSESSED AND USAGE OF OTHER VALUATION REPORT USERS AGREED UNDER THE BUSINESS AGREEMENT

The entrusting party of this valuation is Technovator International Limited. The valued unit is Tongfong Energy Saving Engineering Technology Co., Ltd.*. The other users of the valuation report whose usage was agreed by the business agreement are the relevant regulatory bodies.

(1) Entrusting party

Chinese company name:	同方泰德國際科技有限公司*
English company name:	Technovator International Limited
Registered country:	Singapore
Registered address:	66 Tannery Lane #04-10/10A Sindo Industrial Building Singapore
Legal representative:	Lu Zhicheng
Nature of business:	Hong Kong listing company
Stock Code:	1206.HK

Technovator International Limited was incorporated in Singapore in September 2011 with the registration number of 200507127G. Technovator International Limited was listed on the main board of the Hong Kong Stock Exchange in October 2011.

Principal business activities include: design, manufacture and distribution of integrated building automation and energy management systems, as well as the provision of products and solutions for control security and fire alarm systems.

(2) Entity being assessed

Name:	Tongfang Energy Saving Engineering Technology Co., Ltd.*
Registered Address:	26/F, Block B, Tsinghua Tongfang Science and Technology Plaza, 1 Wangzhuang Road, Haidian District, Beijing
Nature:	Limited liability company (foreign joint venture)
Authorised representative:	Fan Xin
Registered capital:	RMB66,666,667

Tongfang Energy Saving Engineering Technology Co., Ltd.* (hereinafter referred to as “Tongfang Energy Saving” or “Target Company”) was limited liability company jointly established by Tsinghua Tongfang Artificial Environment Co., Ltd.* and Wang Shu Ping (王書平), a natural person who subsequently transferred his interests to Zheng Yi (鄭奕), on 12 June 2002 with an initial registered capital of RMB10 million, out of which RMB8 million and RMB2 million were invested by Tsinghua Tongfang Artificial Environment Co., Ltd.* and Wang Shu Ping (王書平) respectively, representing 80% and 20% of the registered capital.

Tongfang Energy Saving was registered at the Haidian Branch of Beijing Administration for Industry and Commerce and obtained Business Licence of Enterprise Legal Person (registration number: 110108003880431) with a business operation period from 12 June 2002 to 11 June 2022.

In June 2006, Tongfang Energy Saving passed a resolution at the third general meeting in connection with converting the undistributed profit of the Target Company into the registered capital. The registered capital increased to RMB15 million from RMB10 million by the capital injection of shareholders on a pro rata basis. The capital contribution of Tongfang Artificial Environment Co., Ltd.* and Zheng Yi were RMB12 million and RMB3 million respectively after the conversion.

In July 2009, Tongfang Artificial Environment Co., Ltd.* acquired 20% equity interest in Tongfang Energy Saving held by Zheng Yi. Tongfang Artificial Environment Co., Ltd.* held 100% equity interest in Tongfang Energy Saving upon the completion of transfer. Pursuant to the resolution passed at the third general meeting of Tongfang Energy Saving, Tongfang Artificial Environment Co., Ltd.* contributed RMB35 million (in form of cash) to Tongfang Energy Saving. The registered capital of Tongfang Energy Saving was RMB50 million after the capital injection.

Tongfang Energy Saving stripped and transferred the relevant assets of energy storage business and heat pump business on 31 December 2012.

On 20 April 2013, Excel Perfect Investment Limited (群名投資有限公司) made a capital injection into Tongfang Energy Saving in form of cash. The registered capital of Tongfang Energy Saving was approximately RMB66.7 million after capital injection.

Tongfang Energy Saving was changed from a domestic enterprise into a foreign-invested enterprise on 12 September 2013 (date of approval).

Pursuant to the Equity Interest Transfer Agreement of Tongfang Energy Saving Engineering Technology Co., Ltd.*, Tongfang Artificial Environment Co., Ltd.* transferred its 75% equity interest in Tongfang Energy Saving to TFRH Investments Limited on 6 November 2013. Upon the completion of transfer, TFRH Investments Limited and Excel Perfect Investment Limited held 75% and 25% equity interest, respectively.

As at the Valuation Date, there was no change in the shareholding structure of Tongfang Energy Saving.

Main business scope: energy saving technology development, technology consulting, technology transfer, technology service and technology promotion; energy management contract (EMC); professional contracting for mechanical and electrical equipment installation engineering; mechanical equipment wholesale (excluding the commodities subject to the state-run trade management; with regard to the commodities subject to quota licence management, applications shall be made in accordance with the relevant regulations of the State) (other than projects which had not obtained administrative licence) (The company was converted from a domestic enterprise into a foreign-owned enterprise on 12 September 2013 (date of approval)).

Tongfang Energy Saving Engineering Technology Co., Ltd.*, a subsidiary of Tsinghua Tongfang Co., Ltd.*, is engaged in the industrial and architectural heating and cooling energy-saving solution market. **The Target Company provides one-stop, whole-process and diversified and comprehensive services of energy saving and emission reduction for energy-consumption clients in industrial production and architectural line of work.**

Tongfang Energy Saving mainly promotes the business cooperation models such as EPC (Engineering, Procurement and Construction, same hereinafter) and EMC (Energy Management Contract, same hereinafter), and is engaged in heating and cooling energy-saving business in industrial and architectural line of work.

Tongfang Energy Saving mainly promotes the technology of absorption heat pump system (吸收式熱泵系統) in the heating field; the dehumidifying blast technology on blast furnace (高爐鼓風脫濕技術) and temperature and humidity separate control system for double-cold-source (雙冷源溫濕分控系統) etc. in the cooling field.

Business Cooperation Models:

1. *EMC model*

“EMC” is the abbreviation for Energy Management Contract. Since the mid-1970s, “EMC”, a brand-new market-based energy saving mechanism, has gradually thrived in the countries with market economy. The professionalized energy-saving service companies have experienced a rapid growth by operating under such brand-new energy saving mechanism. The energy-saving service companies entered into energy-saving service contracts with clients wishing to undergo energy saving reconstruction, in an attempt to provide the clients with one-stop comprehensive services such as energy efficiency audit, energy project design, purchase of raw materials and equipment, construction, training, operation maintenance and energy saving monitoring, and to make profit and achieve sustainable development by sharing energy saving benefits incurred after the construction of projects with clients.

The characteristics and strengths of “EMC”, an energy saving mechanism and business model, lie in:

- (1) achieving a win-win cooperation between cooperative parties, and stimulating the enthusiasm of such parties during the whole process of the construction of energy saving project.
- (2) overcoming and avoiding barriers such as psychological recognition, technology recognition, energy saving effect recognition and risks exposure faced by energy-consuming enterprises during the implementation of energy saving projects as energy-saving service companies bear full responsibility for all risks of energy saving projects in respect of technology and capital.
- (3) that the EMC mechanism promotes the cooperation between both parties from the trade relationship of buying and selling at traditional productivity level to objective relationship at production level which includes financing and investment, benefit sharing and transfer of property rights. They share mutual losses and benefits. Both parties cooperate for same interests instead of contravene each other and are united.
- (4) that the responsibilities, rights and interests of all parties are integrated during the whole process of EMC, which manifests the principle of just and fair. Furthermore, the boundary is clear and is implemented properly with strong operability.
- (5) that during the whole operating procedure of the EMC mechanism, energy-saving service company owns the advanced technology and products, sound management technology and experience as well as well-established financing channels of energy-saving projects, which achieves the optimal combination of productivity factors so as to create new productivity growth and maximize economic and social benefits with the optimal input.
- (6) that after the end of the share period of energy-saving efficiency of EMC project, the energy-saving equipment is transferred to and used by customers and all of the energy saving benefits is attributable to customers.

Not only does the EMC model possess the above-mentioned merits, it also facilitates the promotion of absorption heat pump technology and application of industrial energy saving fairly. Therefore, it is one of the principle business models that Tongfang Energy Saving will develop in the future.

2. EPC model

EPC is the abbreviation of Engineering, Procurement and Construction, what we usually refer to as engineering general contracting. Specifically, it means the enterprises engaging in general engineering contracting entrusted by property owners to contract the entire process or several phases of the survey, design, procurement, construction and trial operation (completion and acceptance) of the construction projects as agreed in the contracts. A general engineering contractor will take full responsibilities as to the quality, safety, construction period and cost of the projects constructed.

EPC model is an important project operating model in the field of energy-saving engineering in our country, which both energy-saving service companies and energy-consumption enterprises are familiar with, facilitating the bidding for large scale projects. However, problems easily occur among the main phases such as design, procurement and construction, which make it hard to achieve the optimization of the energy-saving efficiency of the project or minimization of the investment. Also, as EPC model often adopts bidding which is featured by fierce competition, its profit is relatively lower than that of EMC model.

The assets, financial and operating conditions of the Tongfang Energy Saving in the recent three years:

Unit: RMB'000

Items	31 December 2011	31 December 2012	31 December 2013
Current assets	54,548.78	138,067.28	157,253.08
Non-current assets	29,051.23	163,262.59	275,163.76
Total assets	83,600.00	301,329.87	432,416.85
Current liabilities	7,072.50	98,197.70	202,781.05
Non-current liabilities	26,900.00	152,180.00	171,926.98
Total liabilities	33,972.50	250,377.70	374,708.03
Net assets	49,627.51	50,952.17	57,708.82
Items	2011	2012	2013
Operating income	–	50,522.02	98,731.99
Total profit	–455.73	2,198.84	–15,306.52
Net profit	–372.49	1,324.66	–12,174.85

The above financial statement were derived from figures of the parent company, of which figures of 2011, 2012 and 2013 had been audited by certified public accountants.

(III) The Relationship between the Entrusting Party and the Entity Being Assessed

Tongfang Energy Saving, the entity being assessed, is a subsidiary of Tsinghua Tongfang Co., Ltd.*. As at the Valuation Date, Tsinghua Tongfang Co., Ltd.* held directly 17.46% equity interest in Technovator International Limited, the entrusting party and indirectly held 15.34% equity interest in it through Resuccess Investments Limited.

(IV) Other Valuation Report Users other than the Entrusting Party

Unless the laws and regulations of the PRC otherwise specified, this valuation report is used by Technovator International Limited (the entrusting party), Tongfang Energy Saving (the entity being assessed) and the relevant regulatory authorities as agreed in Engagement Letter for the purpose of valuation set out by this report only. The valuation report users should use the valuation report properly and the liabilities of adverse consequences resulting from improper use of the valuation report shall not be borne by the valuation agency.

2. PURPOSE OF VALUATION

The purpose of this valuation is to fairly reflect the market value of entire equity interest in Tongfang Energy Saving as at the Valuation Date, being 31 March 2014, and provide a reference advice in connection with the economic activity of proposed acquisition of the equity interest in Tongfang Energy Saving by Technovator International Limited through the proposed issue of Shares.

3. SUBJECT AND SCOPE OF VALUATION**(I) Subject of Valuation**

The subject of this valuation is the total value of the entire equity interest in Tongfang Energy Saving in respect of the economic activities specified by the entrusting party.

(II) Scope of Valuation

The scope of this valuation is all the assets and liabilities of Tongfang Energy Saving. The balance sheet as at the Valuation Date is as follows:

Amount Unit: RMB

Item	Carrying Value	Item	Carrying Value
Total current assets	146,943,978.61	Total current liabilities	184,592,690.08
Cash and cash equivalents	2,043,741.35	Short-term borrowings	80,000,000.00
Bills receivable	3,105,508.00	Bills payable	4,727,800.00
Accounts receivable	75,309,243.78	Accounts payable	52,480,799.90
Prepayments	16,412,356.60	Receipts in advance	4,076,558.50
Other receivables	44,687,996.18	Payroll payable	1,862,356.47
Interest receivable		Tax payable	2,071,041.26
Inventories	5,385,132.70	Other payables	520,805.37
Other current assets		Non-current liabilities due within one year	27,100,000.00
Total non-current assets	276,401,337.17	Total non-current liabilities	188,776,980.00
Long-term receivables		Long-term borrowings	188,776,980.00
Long-term equity investment	44,000,000.00	Estimated liabilities	
Fixed assets	124,762,304.45	Deferred income tax liabilities	
Construction in progress	104,035,947.83	Other non-current liabilities	
Development expense	351,193.14		
Deferred income tax assets	3,251,891.75	Total liabilities	373,369,670.08
Other non-current assets		Total owner's equity	49,975,645.70
Total assets	423,345,315.78	Total liabilities and owner's equity	423,345,315.78

The subject and scope of this valuation are consistent with those in relation to the economic activities of proposed acquisition of equity interest in Tongfang Energy Saving by Technovator International Limited through the proposed issue of Shares.

(III) Legal Ownership and Economic and Physical Condition of Individual Asset or Asset Portfolio with Greater Impacts on the Enterprise Value

1. Fixed Asset – EMC Projects

Fixed asset involves 5 EMC Projects which have entered sharing period of energy-saving efficiency as at the Valuation Date, details of which are as follows:

No.	Project Name	Installed Capacity	Date of Operation Commencement	Sharing Period (years)	Cooperation Model
1	Jixi Thermoelectricity Power Plant* (雞西熱電廠)	45MW (15MW, wattmeter of the plant)	26 December 2011	11	Revenue sharing
2	Wangkui Thermal Sunshine* (望奎熱力陽光)	60MW (20MW)	31 December 2012	12	Revenue sharing
3	Dengta Hongyang Power Plant* (燈塔紅陽電廠)	81MW (32MW*2+17MW*1)	24 December 2012	6	Revenue sharing
4	Tang Steel Power Plant* (唐鋼動力廠)	14MW (7MW)	15 November 2013	6	Revenue sharing
5	Ningan Chemical* (寧安化工)	46MW(23MW*2)	26 December 2012	10	Revenue sharing

2. Equipment

There are 10 vehicles in total, of which, the Mondeo sedan with licence plate of JinHQ4775 was transferred prior to the Valuation Date without accounting treatment, and the owner of the remaining 9 non-operating vehicles is Tongfang Energy Saving. Such vehicles with qualified annual inspection are of good performance and maintenance, which are functioning properly.

There are 91 pieces of electronic equipment in total, mainly including the office equipment such as computer, printer and notebook. Such equipment, mainly purchased between 2011 and 2013, are functioning properly.

3. Inventories

Inventories refer to unsettled engineering projects which are mainly the construction-in-progress but not settled engineering projects of Tongfang Energy Saving. Carrying value represents the accumulated engineering construction investment costs incurred.

4. Long-term Equity Investments

There are two long-term equity investments, being in Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司) and Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司), the investment ratio for which is 70% and 100% respectively.

(1) *Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司)*

Company name:	Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司)
Legal residence:	Wu Fan Road, Xin Le Shi (Xin Le East Heating Power Co., Ltd.* in Shijiazhuang) (新樂市無繁路(石家莊新樂東方熱電有限公司院內))
Legal representative:	Li Guoqiang* (李國強)
Registered capital:	RMB20 million
Paid up capital:	RMB20 million
Company type:	other company with limited liability
Scope of business:	Heat supply (business type: cogeneration) (the Heating Supply Business License is valid until 31 December 2016), sales of heat equipment, maintenance services for heating equipment, investment and assets operation

Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司) was jointly funded and established by Tongfang Energy Saving Engineering Technology Co., Ltd.* and XinLe Yimin Heating Power Co., Ltd.* (新樂市益民熱力有限公司) on 15 October 2013 with an initial registered capital of RMB20 million, of which Tongfang Energy Saving Engineering Technology Co., Ltd.* contributed RMB14 million and XinLe Yimin Heating Power Co., Ltd.* (新樂市益民熱力有限公司) contributed RMB6 million, representing 70% and 30% of the registered capital respectively.

Scope of business: heat supply, sales of thermal equipment, maintenance service of heat equipment, investment and asset operation.

Tongfang Energy Saving Engineering Technology Co., Ltd.* has entered into the Investment Cooperative Agreement with XinLe Yimin Heating Power Co., Ltd.* (新樂市益民熱力有限公司) on 15 September 2013. The cooperation period is from 31 March 2013 to 31 December 2043.

(2) *Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.** (同方節能(友誼)熱力有限公司)

Company name:	Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司)
Legal residence:	No. 9 Business Service, Block 76, Shidai Xincheng Community, Shuangyashan Shi, Heilongjiang Province (黑龍江省雙鴨山市友誼縣時代新城小區76棟9號商服)
Legal representative:	Li Guoqiang* (李國強)
Registered capital:	RMB30 million
Paid up capital:	RMB30 million
Company type:	other company with limited liability (legal entity wholly owned or controlled by non-natural person)
Scope of business:	General operation: Production and supply of heat; sales of thermal equipment and provision of maintenance services (except those prohibited by laws, administrative regulations and decisions of the State Council; where those allowed by laws, administrative regulations and decisions of the State Council, approval should be obtained from the competent authorities prior to operation). As such, the Heating Supply Business License should be obtained prior to operation.

*Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.** (同方節能(友誼)熱力有限公司) was funded and established by *Tongfang Energy Saving Engineering Technology Co., Ltd.** on 31 October 2013 with an initial registered capital of RMB30 million, representing 100% of the registered capital.

Scope of business: general operation items: heat production and supply; sales and maintenance service of heat equipment.

*Tongfang Energy Saving Engineering Technology Co., Ltd.** has entered into the Central Heating Project Agreement in respect of Youyi County (《友誼縣城區集中供熱項目協議書》) with the People's Government of Youyi County in October 2013. The cooperation period is from 31 March 2013 to 31 December 2043.

(IV) Book Entry or Non-recorded Intangible Asset Reported by the Entity Being Assessed

No book entry or non-recorded intangible asset was reported by subject of valuation.

(V) Off Balance Sheet Asset Reported

No other off balance sheet asset or liability has been reported by the entrusting party and entity being assessed, nor could the appraisers obtain any indication of other off balance sheet assets or liabilities. The income method adopted in connection with this project to assess the valuation subject's value fully reflects the future profitability value of entire assets of the valuation subject and no other non-reported off balance sheet asset was discovered.

(VI) Quotation of Reports Prepared by Other Institutions

The inclusion of assets and liabilities of the valuation scope does not involve any report prepared by other institutions.

4. TYPES OF VALUE AND ITS DEFINITION

General types of value to be used for assessing an enterprise's value include market value and non-market value.

For the purpose of this valuation, the type of value of the subject of valuation is the market value subject to the basis of going-concern.

Market value refers to the estimated amount for which the subject of valuation is transacted on a normal and fair basis on the Valuation Date between a willing buyer and a willing seller, wherein the parties each acts rationally without any compulsion.

5. VALUATION DATE

The valuation date of this project is 31 March 2014.

In order to ensure the timeliness of the valuation result and to get as close as possible to the date on which the valuation purpose is achieved, we negotiated with the entrusting party based on the nature of the economic behavior of this valuation and finally, the Valuation Date was determined to be 31 March 2014 by the entrusting party.

The Valuation Date is a closing date of a month period during which relevant information and financial data can be fully reflected while a better comparability can be achieved, which benefits the economic activity.

Pricing standard adopted in this valuation comprises price, tax rate, rates and interest rate of deposits and loans, all of which are effective price standards as at the Valuation Date.

6. VALUATION BASIS

The laws and regulations, criteria basis, ownership basis, pricing basis as required by the state, municipal government and relevant departments as well as documentary information and basis that we compiled with and referred to during the valuation are mainly as follows:

(I) Basis of the activity

1. The Engagement Letter on Asset Valuation (《資產評估業務約定書》) entered into between the entrusting party and Beijing Zhuoxindahua Appraisal Co., Ltd.*.

(II) Principal Legal and Regulatory Basis

1. Company Law of the People's Republic of China (《中華人民共和國公司法》);
2. Securities Law of the People's Republic of China (《中華人民共和國證券法》);
3. Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》);
4. Law of the People's Republic of China on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》);
5. Administrative Measures for Appraisal of State-owned Assets (《國有資產評估管理辦法》) (Order No. 91 of the State Council);
6. Implementation Rules for the Administrative Measures for Appraisal of State-owned Assets (《國有資產評估管理辦法實施細則》) (Guo Zi Ban Fa [1992] No. 36) originally promulgated by the National State-owned Asset Administration Bureau;
7. Rules on Certain Issues relating to the Appraisal of State-owned Assets (《國有資產評估管理若干問題的規定》) (Order [2001] No. 14 of the Ministry of Finance);
8. Provisional Regulations on Monitoring and Administration of State-owned Assets (《企業國有資產監督管理暫行條例》) (Order [2003] No. 378 of the State Council);
9. Provisional Measures for Administration of State-owned Assets Appraisal (《企業國有資產評估管理暫行辦法》) (Order [2005] No. 12 of the SASAC);
10. Notice on Printing and Distributing Guidelines on Filing on Record for State-owned Enterprise Assets Appraisal Projects (關於印發《企業國有資產評估項目備案工作指引》的通知) (Guo Zi Fa Chan Quan [2013] No. 64);
11. Other applicable laws and regulations.

(III) Standards Basis

1. Assets Appraisal Standards – Basic Standards (《資產評估準則 – 基本準則》) and Code of Ethics for Assets Appraisal – Basic Standards (《資產評估職業道德準則 – 基本準則》) (Cai Qi [2004] No. 20);
2. Notice of the China Appraisal Society on Issuing Seven Assets Appraisal Standards Including Assets Appraisal Standards – Appraisal Report (中國資產評估協會關於印發《資產評估準則 – 評估報告》第7項資產評估準則的通知) (Zhong Ping Xie [2007] No. 189);
3. Guiding Opinions for Certified Asset Appraisers on Legal Ownership of the Valuation Object (《註冊資產評估師關注評估對象法律權屬指導意見》) (Hui Xie [2003] No. 18);
4. Asset Appraisal Standards – Enterprise Value (《資產評估準則 – 企業價值》) (Zhong Ping Xie [2011] No. 227);
5. Guidelines on the Business Quality Control for Valuation Institutions (《評估機構業務質量控制指南》) (Zhong Ping Xie [2010] No. 214);
6. Code of Ethics – Independence (《職業道德準則 – 獨立性》) (Zhong Ping Xie [2012] No. 248);
7. Notice of China Appraisal Society on Modifying the Signature Clause in the Standards for Appraisal Report (《中評協關於修改評估報告等準則中有關簽章條款的通知》) (Zhong Ping Xie [2011] No. 230);
8. Asset Appraisal Standards – Making Use of Experts (《資產評估準則 – 利用專家工作》) (Zhong Ping Xie [2012] No. 244).

(IV) Basis of Ownership

1. Energy-saving service contracts and EPC contracts;
2. Vehicle driving licenses;
3. Other title ownership certificates.

(V) Pricing Basis

1. Relevant national industry policies, industry analysis and parameters;
2. The future development planning and forecast provided by valued object;
3. The lending rate published by the People’s Bank of China as at the Valuation Date;
4. Data provided by Wind Information Co., Ltd.* (上海萬得信息技術股份有限公司);

5. Feasibility study report of projects provided by the valuation subject;
6. Energy-saving service contracts and EPC contracts;
7. Notice of the State Administration of Taxation in relation to Policy Issue on VAT, Business Tax and Enterprise Income Tax for Promoting Energy-Saving Service Industry (《國家稅務總局關於促進節能服務產業發展增值稅、營業稅和企業所得稅政策問題的通知》) (Cai Zheng Bu Cai Shui [2010] No. 110);
8. Other documents such as agreements and accounting receipts relating to the acquisition and use of assets by the valuation subject.

(VI) Other references

1. Breakdown of assets appraisal provided by the entity being assessed;
2. On-site survey forms and other information collected and compiled by the appraisers;
3. Other information relevant to appraisal.

7. VALUATION METHODOLOGY

(I) Analysis of the applicability of appraisal approach

In conducting assets appraisal works for the enterprise, the certified asset appraiser shall analyze the applicability of three fundamental approaches for asset appraisal, namely income approach, market approach and cost approach (asset-based approach), and appropriately choose one or more basic approaches for asset appraisal according to relevant conditions such as the purpose of appraisal, the subject of valuation, the type of value and the information collected.

The income approach for the appraisal of enterprise value represents the appraisal method for determining the value of the subject of valuation by capitalizing or discounting the expected income.

The specific methods commonly used by the income approach include the dividend discount method and the discounted cash flow method. The dividend discount method refers to a specific method for determining the value of the subject of valuation by discounting the expected dividends, and is usually applicable to appraise the value of some of the equity of the shareholders lacking control. The discounted cash flow method usually includes the Free Cash Flow of Firm (FCFF) Model and the Free Cash Flow of Equity (FCFE) Model.

Based on the characteristics of economic activities corresponding to the purpose of this appraisal, and the information regarding the operation of the enterprise collected from on-site appraisal, taking into account the sustainable operating ability of Tongfang Energy Saving, its future income and the risks it has assumed both can be measured in currencies, which is in line with the prerequisite conditions to adopt income approach. In consideration of the adequacy of appraisal information collected during this appraisal, the income approach is applicable to the appraisal of this appraisal project.

The market approach for the appraisal of enterprise value represents the appraisal method for determining the value of the subject of valuation by comparing the subject of valuation with comparable listed companies or with comparable transaction cases.

Two specific methods commonly used in the market approach are the listed company comparison method and the transaction case comparison method. The listed company comparison method refers to a specific method of determining the value of the subject of valuation on the basis of comparison and analysis of the enterprise being valued by collecting and analyzing the operating and financial data of comparable listed companies, and then calculating appropriate value ratios. The transaction case comparison method refers to a specific method of determining the value of the subject of valuation on the basis of comparison and analysis of the enterprise being valued by collecting and analyzing information regarding transactions, acquisitions and merger cases of comparable enterprises, and then calculating appropriate value ratios.

In light of the characteristics of the economic behavior related to the objective of this valuation and the information regarding the operation of the enterprise collected on the valuation site, transaction case comparison method is not applicable to this valuation, as the information required by transaction case comparison method can hardly be collected and the fact that whether the information contains any non-market value factors is unknown.

First of all, Tongfang Energy Saving adopted international accounting standards in auditing. EMC projects are audited by carrying forward the fixed assets during the completion of project without recognizing the revenue or profits. Revenue and profits are recognized year by year based on the energy saving revenues during the energy saving benefits period of projects. The selected auditing method of listed companies in the same industry is different from that of Tongfang Energy Saving. The main difference is that the profits of EMC projects are recognized upon completion. In addition, Tongfang Energy Saving adopted EMC mode in operation since 2011. Between 2011 and the Valuation Date, the operating revenue was mainly based on EPC business. There were only 5 EMC projects entering into energy saving benefits sharing period. As the gross profit margin of EPC projects was relatively low and the number of EMC projects entering into energy saving benefit sharing period was relatively less but selling expenses and management expenses arising from the development of market and management of the Target Company increased with years, net loss was recorded during the historical year. The selected listed companies in the same industry were more mature in operation and hence their profits levels and financial indicators were more stable. In addition, the accounting standards adopted by Tongfang Energy Saving were different from that of the selected listed companies in the same industry. To conclude, Tongfang Energy Saving's financial indicators are not qualified for comparison with listed companies. Therefore, the listed company comparison method is not applicable to this appraisal.

The asset-based approach for the appraisal of enterprise value represents the appraisal method based on the balance sheets of the entity being assessed as at the valuation date, used for determining the value of the subject of valuation by reasonably appraising the value of various assets and liabilities recorded in and outside balance sheets. The value of each asset and liability shall be calculated by suitable specific appraisal method according to its specific condition.

The appraisal results of asset-based approach are mainly determined according to the renewal and replacement cost of each asset and liability of the enterprise on the valuation date. The impacts on enterprise value regarding the energy-saving technologies, operating model, management system and future profitability of the assessed unit in the heating and cooling fields cannot be reflected by asset-based approach, the asset-based approach therefore is not applicable to this appraisal.

(II) Technologies and Models of the Income Approach

The discounted cash flow method used in this project refers to an appraisal technique by estimating the expected future net cash flows of the subject of valuation and discounting them to the present value using the appropriate discount rate to determine the appraisal value. The applicable prerequisites of discounted cash flow method are: (1) the overall assets of enterprises have the foundation and conditions for going concern and there is a relatively steady relationship between the operation and the revenue, (2) the future expected revenue must be measured in currency; (3) the risks assumed by the subject of valuation must also be measured in currency.

The forecast on future expected cash flows by using discounted cash flow method requires data to be collected and processed complying with objectivity and reliability and the discount rate to be selected relatively reasonably.

This appraisal had adopted the Discounted Free Cash Flow of Firm model in the Discounted Cash Flow Method. The Discounted Cash Flow Method is described as follows:

Basic calculation model

The entire equity value = the overall value of the enterprises - the value of interest-bearing liabilities

$$E=B-D$$

The overall value of the enterprises: $B=P+I+C$

Of which:

B: the overall value of the enterprises of the subject of valuation;

P: the value of operating assets of the subject of valuation;

I: the value of long-term equity investment of the subject of valuation;

C: the value of surplus or non-operating assets (liabilities) of the subject of valuation;

The calculation model of the value of operating assets:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i}$$

Of which:

R_i: the cash flow of the subject of valuation in the ist/nd/rd/th year;

r: the discount rate;

n: the future operating period of the subject of valuation;

(III) The Appraisal Process of Income Approach

1. *The Determination of Profit Years*

Tongfang Energy Saving carries out its operation mainly based on EMC and EPC models, of which EMC project is featured by a large amount of investment at the start of each project and a long recovery period of energy-saving benefits and its amount of investment differs largely from energy-saving benefits sharing period. Based on the principle of prudence, this appraisal only conducted a forecast on the projects that had entered into contracts or letters of intent for cooperation with the assumption that the profit years would expire on the last day of the energy-saving benefits sharing period as agreed in the project contract. The longest contract period is 12 years. Therefore, the forecast period (the "Forecast Period") starts from 1 April 2014 to 31 December 2025.

2. *Future Revenue Forecast*

According to the principal of expected revenue being consistent with the discount rate, this appraisal applied the Free Cash Flow of Firm formula to determine the revenue indicator relating to the enterprise value of the subject of valuation.

Free Cash Flow of Firm = earnings before interest and tax × (1 – tax rate)
+ depreciation and amortization – capital expenditure – increased working capital

When determining the net profit for the Forecast Period, the appraisers made a proper adjustment to the basis for preparing the financial statements, non-recurring income and expenditure, non-operating assets, non-operating liabilities and surplus assets and related income and expenditure of the subject of valuation, and conducted a necessary analysis as to the economic situation of the subject of valuation and the average economic situation of the industry it belongs to.

(1) *Operating Revenue Forecast*

The operating revenue of EMC projects is the energy saving benefits amount during the project operation which is calculated by the sharing ratio as agreed in the contracts. Energy saving benefit is calculated by the energy price of the energy saved of the period time, which is based on the rated power of the unit installed and the condition of the site. The energy saving benefit shared is derived after deducting

the electricity fee of the assembly unit. Energy saving benefit revenue (i.e. operating revenue) of the period is calculated according to the sharing ratio agreed in the contract.

The energy saved is measured through the professional measuring instrument recognized by both parties and each project has different measurement. Nevertheless, simply speaking, the measurement basically involves the amount of waste heat recovered (the waste heat is usually the energy abandoned before the commencement of project). There are different forms of waste heat in measuring such. They usually include heat energy (unit: 10^9 joules (GJ)), steam energy (unit: tones) and standard coal (unit: tones).

The energy price is expressly agreed in contracts which is determined based on commercial negotiation. For example, some of the unit price of heat energy and steam energy stated in the contracts remain unchanged during the sharing period. Some contracts state the standard coal unit price according to the price of local market of each year during the project being operated.

Electricity unit price of the assembly unit is also agreed in the contracts. The electricity fee usually remains unchanged during the contractual period.

The rated power, expected amount of energy saved, assembly unit energy price and sharing ratio of the technical solution is estimated and agreed when EMC contracts were signed. The operation and the amount of energy saved by the assembly unit during the actual operation of project are different from that stated in the technical solution. Market price of standard coal also fluctuates. By estimating income with this approach, Tongfang Energy Saving adjusted and re-estimated the EMC project technical solution based on the actual operation, amount of energy saved and market price of standard coal at the Valuation Date.

Tongfang Energy Saving formulated relevant technical formulae which serve as the basis to estimate the energy-saving benefits. Such technical formulae have various components including the energy saving efficiency sharing ratio (as agreed in the relevant contract), energy price (as agreed in the relevant contract) and amount of energy saved. Energy saving efficiency sharing ratio was approximately 80% on average. The averaged energy price was not higher than RMB37.28/GJ, RMB730/ton of standard coal, RMB115/ton of steam and RMB190/ton of bagasse, depending on the type of raw materials for energy generation. Amount of energy saved was estimated by the engineering department of Tongfang Energy Saving based on actual operating data which has been reviewed and considered by the appraisal personnel, with reference to actual operating conditions, energy saving volume, energy price and energy saving efficiency of the EMC projects during historical years. For the forecast on energy-saving benefits of EMC projects in future years, this valuation assumes that the EMC projects of Tongfang Energy Saving could realize the expected energy saved.

As at the Valuation Date, there were 5 EMC projects of Tongfang Energy Saving in the energy-saving benefits sharing period. They are the waste heat recovery and comprehensive utilization project of Gangue Thermoelectricity Plant of Jixi Coal Mining Group Co., Ltd.* (雞西礦業(集團)有限責任公司), the waste heat recovery and comprehensive utilization project of Wangkui Thermal Sunshine Heating Power Co., Ltd.* (望奎陽光熱力有限公司), the waste heat recovery and comprehensive utilization project of Dengta Hongyang Thermoelectricity Co., Ltd.* (燈塔市紅陽熱電有限公司), the waste heat recovery and comprehensive utilization project of Tangshan Branch of Hebei Iron and Steel Company Limited* (河北鋼鐵股份有限公司) and the waste heat recovery and comprehensive utilization project of Ningan Chemical Co., Ltd.* (寧安化工有限公司); the forecast on the energy benefit revenue of these projects for the forecast year was based on the actual operation, the energy-saving benefits and the agreed sharing proportion in the EMC Service Contract.

There were 9 EMC projects under construction. They are the waste heat recovery and comprehensive utilization project of Tangshan Steel Station No.1* (唐山一鋼站) of Hebei Iron and Steel Company Limited, the waste heat recovery and comprehensive utilization project of Tangshan Kailuan Thermoelectricity Co., Ltd.* (唐山開灤熱電有限責任公司), the waste heat recovery heating project of Jinzhou Energy Saving Heat and Electricity Co., Ltd.* (錦州節能熱電股份有限公司), the waste heat recovery and utilization project of COFCO Biochemical (AnHui) Co., Ltd., the waste heat recovery heating project of Zhulu Huada Biological Thermoelectricity Company* (涿鹿華達生物熱電有限公司), the waste heat recovery heating project of Ning An Taixiang Energy Development Co., Ltd.* (寧安市太祥能源開發有限責任公司), the circulating water heat recovery and heating project with absorption heat pump of Mudanjiang Jiari (牡丹江佳日), the moisture removal project with air blow of Guigang Iron & Steel Group Co., Ltd.* (貴港鋼鐵集團有限公司), the waste heat recovery and comprehensive utilization project of Guangxi Laibin Yongxin Sugar Co., Ltd.* (廣西來賓永鑫糖業有限公司), and the waste heat recovery and utilization project of Ningan Chemical Co., Ltd.* (寧安化工有限公司). The forecast on the energy-saving benefit revenue and the maintenance cost of these projects with the income approach in the forecast year was based on the EMC Service Contracts.

There were 12 projects with letters of intent, of which, 7 projects had prepared the feasibility study report and the investment estimation table. The forecast on the energy-saving benefit revenue and maintenance cost of these projects with the income approach in the forecast year was based on the feasibility study report and the investment estimation table; the energy-saving efficiency revenue and maintenance cost of the other 5 projects were measured based on the intended investment amounts with reference to the proportion of energy-saving benefit revenue and maintenance cost in the investments of the projects under construction or in the energy-saving benefit sharing period. The energy-saving benefit sharing period was measured at the average revenue sharing period of 8 years.

The operating revenue of EPC project is the contract consideration of the subcontracted construction work. As at the date of the valuation report, Tongfang Energy Saving had a total of 6 EPC projects, of which Tsinghua University Art Hall (清華藝博館) project had entered into EPC contract and commenced construction since 2013. Shenzhen Ping An Building (深圳平安大廈) Project had entered into the EPC contract, and the other 4 projects had entered into the letters of intent. The forecast on the revenue and cost of these projects with the income approach in the forecast year was measured in accordance with the contract sum of signed contracts, and the contracts of intention having been entered into were measured on the basis of the intended investment amounts with reference to the proportion of revenue and cost of the historical EPC projects.

The number of EMC and EPC projects that can contribute operating revenue to Tongfang Energy Saving for each year in the future is shown as the following table:

Project	Number of projects					
	Apr-Dec 2014	2015	2016	2017	2018	2019
EMC	15	21	24	26	26	25
EPC	3	2	2	1	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Project	2020	2021	2022	2023	2024	2025
EMC	23	20	17	14	13	6
EPC	0	0	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(2) *Operating Costs Forecast*

Operating costs are mainly the construction costs of EPC projects and maintenance costs and depreciation of EMC projects in the energy-saving benefit sharing period. The construction costs of the EPC projects are measured based on the contractual price and the intended investment amount, with reference to the ratio of income to cost of historical EPC projects. The depreciation of EMC projects is calculated based on the construction cost and the intended investment amount of the project during the energy-saving benefit sharing period, using useful lives average approach. The maintenance costs are determined based on the technical solutions of the project which are adjusted and re-estimated by Tongfang Energy Saving based on the actual operation of the projects.

(3) *Business Tax and Surcharges Forecast*

EMC projects are subject to the value added tax at 6% of output tax based on the operating revenue of each year in the future; EPC projects are subject to relevant business tax with the rate of 3% based on the operating revenue of each year in the future. Surcharges tax is measured based on the value added tax and business tax payable respectively, with the urban maintenance and construction tax rate of 7%, educational surtax of 3% and local educational surtax of 2%.

(4) *Business Expenses Forecast*

Business expenses for previous years mainly include the expenses relating to Tongfang Energy Saving in developing projects and expanding market. Since the letters of intent had currently been entered into in connection with the EMC and EPC projects are appraised and forecasted with the income approach but the energy-saving service contract and the general contracting contract of projects had not been duly entered into, further steps relating to the projects will be implemented in the coming years. The forecasts on business expenses before the contracts of newly-built projects being duly entered into were based on the conditions of business expenses in the previous years.

(5) *Forecast of Administrative Expenses*

Administrative expenses in previous years are mainly used to audit the relevant expenses of Tongfang Energy Saving in company management and project management. As this appraisal and forecast by income approach includes existing and new projects with the sharing periods of energy-saving benefits ranging from 6 to 12 years, other administrative expenses is forecasted based on the actual conditions, assuming that administrative expense increases gradually with salary costs in operation period of such projects.

(6) *Forecast of Income Tax*

The actual income tax rate of Tongfang Energy Saving is 25%. According to Notice of the State Administration of Taxation in relation to Policy Issue on VAT, Business Tax and Enterprise Income Tax for Promoting Energy-saving Service Industry (《國家稅務總局關於促進節能服務產業發展增值稅、營業稅和企業所得稅政策問題的通知》) (Cai Zheng Bu Cai Shui [2010] No. 110), the energy-saving service contract projects of Tongfang Energy Saving enjoy income tax policy of "Three Free and Three Reduction". The profit for EPC projects is subject to 25% of the income tax rate while the profit for EMC projects is subject to the income tax rate in accordance with the tax preferential policy of "Three Free and Three Reduction" (being 0%, 12.5% and 25% respectively).

(7) *Forecast of Depreciation*

The forecast is made in accordance with the accounting policies adopted by the entity being assessed and based on the valuation of fixed assets on the Valuation Date, historical consolidated depreciation rates for previous years and depreciation period.

(8) *Capital Expenditure Forecast*

Capital expenditure mainly represents normal replacement investments for fixed assets and new project investments.

(9) *Increased Working Capital Forecast*

Increased working capital of an enterprise refers to the increased working capital required for the enterprise to maintain sustainable development without changing its existing core business, which represents the cash obtained through acquiring commercial credit of others, cash required for normal operation and inventories following any changes to the business activities of the enterprise. Meanwhile, during the course of economic activities, providing commercial credit could reduce the immediate payment in cash. Therefore, estimation of the increase in working capital requires only the consideration of main factors such as cash required for normal operation, receivables, inventories and payables. The expected increase in working capital according to this valuation is as follows:

Increase in working capital = working capital for the current period – working capital for the last period

Working capital = cash + receivables + inventories – payables

Of which: receivables = total operating income/turnover of receivables

Inventories = total operating costs/turnover of inventories

Payables = total operating costs/turnover of payables

Receivables mainly include: trade receivables, note receivables, long-term receivables and other receivables associated with operations.

Payables mainly include: trade payables, note payables and other payables associated with operations.

The receivables and note receivables of Tongfang Energy Saving mainly include receivables in relation to engineering projects or amounts arising from energy saving benefits; prepayments represent mainly prepayments in relation to construction projects; inventories represent mainly engineering projects under construction; other receivables represent mainly various receivables and temporary payments other than those incurred by energy saving engineering projects of the Target Company; payables, note payables and advances mainly include payables in relation to construction projects; other payables represent mainly various payables other than those incurred by energy saving engineering projects of the Target Company. The new project construction period under the income approach is the first three years before the Forecast Period. The principal business of the Target Company after the completion of projects will be the operation of EMC project during the energy-saving benefit sharing period and will not include engineering construction business and incur the related amounts. The working capital projection is a forecast of the amounts relating to engineering construction during the engineering construction period on the assumption that the amounts in relation to the energy-saving benefits of EMC project could be recovered in the agreed payment period set out in the contract.

3. *Determination of Discount Rate*

The Weighted Average Cost of Capital (WACC) pricing model has been applied in the valuation.

$$R = R_e \times W_e + R_d \times (1 - T) \times W_d$$

Of which:

R_e : cost related to equity capital;

R_d : cost related to interest-bearing liabilities capital;

W_e : value of equity capital as a percentage of investment assets;

W_d : value of interest-bearing liabilities as a percentage of investment assets;

T : applicable income tax rate.

Of which, cost related to equity capital is calculated based on Capital Asset Pricing Model (CAPM).

Calculated as follows:

$$R_e = R_f + \beta \times MRP + R_c$$

R_f : risk-free rate of return

MRP : $R_m - R_f$: average market risk premium

R_m : expected market rate of return

β : expected market risk coefficient

R_c : risk adjustment coefficient specific to enterprises

(1) *Determination of Risk-free Rate of Return*

Safe yield is also known as the risk-free rate of return or safe interest rate, which is the lowest yield investors shall be offered under the current market conditions. In China, as the treasury bonds is a relatively safe investment, its yield is thereby regarded as the most stable and lowest (i.e. the safe yield) among different investment portfolios. Valuer conducted this valuation with reference to bond-related information published on <http://www.hexun.com> (established in 1996, Hexun (www.hexun.com) is the only financial website which owns internet news information service license as well as information spread internet audio-visual program license and securities investment advisory qualifications in the mainland) and applied the yield to maturity of intermediate-term and long-term treasury bonds with the remaining term of more than ten years (considering that the forecast years in relation to the income approach of Tongfang Energy Saving are 11 years and 8 months, being 1 April 2014 to 31 December 2025, and the remaining years of the selected treasury bonds shall close to or longer than the forecast years) as the risk-free rate of return.

The calculation table of average interest rate (yield to maturity) of intermediate-term and long-term treasury bonds:

Treasury bonds	Code	Term	Remaining Term	Yield to maturity (%)
07 Treasury bonds 13	10713	20	13.39	4.52%
07 Treasury bonds 06	10706	30	23.15	4.27%
06 Treasury bonds (9)	10609	20	12.25	3.70%
05 Treasury bonds (4)	10504	20	11.13	4.35%
Average				<u>4.21%</u>

(2) *Determination of Average Market Risk Premium*

Market risk premium is a market investment portfolio for a risk-diversified market. Investors require a higher return rate than risk-free interest rate. As A-share market in the PRC is a new and relatively closed market, on one hand, the historical records were short and the speculative atmosphere was strong during the previous years when the market emerged. The investors structure and investment ideas have been evolving and the market fluctuated violently. On the other hand, as the foreign exchange under the capital items was strictly controlled in the PRC and mainland market has the unique characteristics of equity split of (non-tradable share existed). As a result the equity risk premium

calculated based on historical information directly includes more uncertainties which are not reliable. The market risk premium level of the whole market is difficult to determine. In this valuation, we made reference to market risk premium of every country calculated by Aswath Damodaran, the American financial scholar.

The market risk premium calculated by Aswath Damodaran comprises financial market risk premium of mature markets (adopting historical risk premium of American share market) and Country Risk Premium (the risk premium arising from different countries). The risk premium of countries is determined based on the long-term rating and volatility of the rating of countries calculated by Moody's Investors Service, the American financial analysis company authority.

According to the statistics from Aswath Damodaran, the historical risk premium of the U.S. stock market is 5.33%, whereas PRC's national risk premium is 1.31% and the consolidated market risk premium is 6.64%.

To conclude, average market risk premium was 6.64%.

(3) *Determination of Beta Coefficient*

Beta coefficient is deemed as an indicator to evaluate the relative risk of companies. In this valuation, 8 listing companies were chosen among the A-share and H-share listed companies in energy saving environmental friendly industry which had the same business mode, similar operation scale and capital structure to be the comparable companies to the entity being assessed. Through Wind's securities information terminal system, we can obtain Beta coefficient with financial leverage of comparable listed companies as at the Valuation Date and the ratio of interest-bearing debt to equity capital, and translate them into Beta coefficient without financial leverage. Then, the arithmetic mean value of the translated Beta coefficient without financial leverage is taken as x and restore x to Beta coefficient with financial leverage of the subject of valuation.

β Index conversion formula:

$$\beta L = \beta U [1 + (1-T) \times Wd/We]$$

List of Comparable Companies without Financial Leveraged β U Coefficient

Serial No.	Abbreviation of companies	Stock code	With leveraged beta coefficient	Income tax for the year end	Ratio of interest-bearing debts/equity (D/E)	Without leveraged beta coefficient
1	Tellhow Sci-tech	600590.SH	1.1955	15.00%	67.84%	0.7582
2	Rongxin Power	002123.SZ	0.9227	15.00%	34.34%	0.7142
3	Harbin Air	600202.SH	1.1417	15.00%	68.60%	0.7212
4	Shuangliang Eco-energy	600481.SH	1.1824	15.00%	21.97%	0.9963
5	Fuchunjiang Environmental	002479.SZ	0.9757	15.00%	16.52%	0.8555
6	Hangzhou Boiler	002534.SZ	1.2190	15.00%	19.02%	1.0493
7	Technovator	1206.HK	0.2329	23.51%	0.10%	0.2327
8	Wasion Group	3393.HK	0.8335	8.81%	0.18%	0.8321
Arithmetic average					<u>28.57%</u>	<u>0.7700</u>

The specific calculation process of the financial leveraged beta index of Tongfang Energy Saving resumed based on the average capital structure of the above companies was shown as follows:

Apr-Dec 2014

Without leveraged risk coefficient	0.7700
Income tax	25%
Average of the ratio of interest-bearing debts/equity (D/E) as calculated in the table above	0.2857
With leveraged risk coefficient	0.9350

Based on $W_e = E / (D + E)$; $W_d = D / (D + E)$, it can be calculated that $W_e = 77.78\%$, $W_d = 22.22\%$.

According to the value of long-term and short-term borrowings set out in balance sheet of selected comparable companies against the interest of long-term and short-term loans released by the People's Bank of China with method of weighted average, the result of R_d is 6.22%.

(4) *Determination of Risk Specific to the Target Company*

Risk specific to the Target Company represents the influence of possible uncertainties, such as changes in market demand, changes in the supply and demand of production factors, competition among

peers, monetary circulation and turnover of capital, on the expected revenue of the subject of valuation during the operation of such company.

As the entity being assessed is not a listed company and the comparable companies from which valuation parameter are obtained are listed companies, adjustment based on specific risk coefficient is required. After a thorough consideration of the production and operation scale, status of operation, financial position and liquidity, the specific risk coefficient of the valuation subject is determined as 3%.

(5) *Determination of Discount Rate of Cost of Equity Capital*

Selected risk-free return rate and risk return rate are taken into account in the formula of discount rate estimation:

$$\begin{aligned} R_e &= R_f + \beta \times MRP + RC \\ &= 4.21\% + 0.9350 \times 6.64\% + 3\% \\ &= 13.42\% \end{aligned}$$

(6) *Determination of Discount Rate of Weighted Average Cost of Capital*

Based on the formula:

$$\begin{aligned} R &= R_e \times W_e + R_d \times (1-T) \times W_d \\ &= 13.42\% \times 77.78\% + 6.22\% \times (1-25\%) \times 22.22\% \\ &= 11.47\% \end{aligned}$$

It is calculated that the discount rate is 11.47%.

4. *Determination of the Non-operating Assets and Liabilities and Appraisal Value of Surplus Assets*

The non-operating assets represent assets that have no direct relationship with the normal operating revenue of the entity and generate no operating returns. Having analyzed, the non-operating assets of this project are: other receivables; the non-operating liabilities are: other payables and long-term borrowings. For the purpose of this valuation, they are determined by using the cost method.

5. *Long-term Equity Investment*

In accordance with the feasibility study report on the long-term equity investment unit or project agreement and relevant documents, we adopted the income approach to calculate and determine the appraisal value of the long-term equity investment of the entire equity interest.

6. *Determination of Interest-bearing Liabilities*

The interest-bearing liabilities of the entity being assessed are short-term borrowings and long-term borrowings. For the purpose of this valuation, they are determined by using the cost method.

7. *Determination of Equity Appraisal Value*

The value of the entire equity interest = the value of operating assets + the value of non-operating assets + the value of surplus assets + the value of long-term equity investment - the value of non-operating liabilities - the value of interest-bearing liabilities

(IV) Calculation of the Appraisal Value and the Outcome

1. *Determination of the Appraisal Value of Operating Assets*

All of the assumptions adopted in arriving at the forecast of the operating cash flow and calculation of the appraisal value of the operating assets are set out in the section headed "The Appraisal Process of Income Approach" above. Based on aforesaid forecast of expected revenue and estimated analysis on the discount rate (being 11.47%) which are part of the process of the income approach as described in the foregoing section headed "The Appraisal Process of Income Approach", the appraisal personnel applied the aforesaid forecast data into the income approach model of this valuation project and calculated that the appraisal value of operating asset is approximately RMB605.9 million.

2. *Determination of the Appraisal Value of Non-operating Assets and Liabilities*

The non-operating assets represent assets that have no direct relationship with the normal operating revenue of the entity and generate no operating returns. Having analyzed, the non-operating assets of this project are: other receivables; the non-operating liabilities are: other payables and long-term borrowings. For the purpose of this valuation, the cost method has been adopted and the appraisal value of non-operating assets and liabilities is approximately -RMB105.9 million.

Non-operating assets (liabilities) and assets valuation surplus are summarized as follows:

Amount Unit: RMB'000

Serial No.	Items	Details	Carrying Value	Valuation
I	<u>Non-operating assets</u>			
1	Other receivables	The transfer amount receivable by Tongfang Energy Saving from Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司)	23,800.00	23,800.00
II	<u>Non-operating liabilities</u>			
1	Other payables	The transfer amount payable by Tongfang Energy Saving to Tongfang Artificial Environment Co., Ltd* (同方人工環境有限公司)	5.80	5.80
2	Long-term borrowing	The transfer amount payable by Tongfang Energy Saving to Tongfang Artificial Environment Co., Ltd* (同方人工環境有限公司)	129,680.31	129,680.31
	Total		<u>-105,886.11</u>	<u>-105,886.11</u>

The above book value is extracted from the unaudited financial statement as at 31 March 2014 of Tongfang Energy Saving.

3. Long-term Equity Investment

In accordance with the feasibility study report(s) on the long-term equity investment unit or project agreement(s) and relevant documents, we adopted the income approach to calculate and determine the appraisal value of the long-term equity investment.

Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司) had obtained the only heating supply permit of Xinle city and became the only heat supplier in Xinle. There has been provision of heat supply in certain areas as at the Valuation Date. In addition, there are ongoing negotiations, taking into account the population scale and urban planning of Xinle, as to the additional areas that would be provided with heat supply. There are also certain confirmed areas that would be provided with heat supply.

Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司) had entered into a heating supply agreement with the government of Youyi county. Youyi county did not have any centralized heating supply before the Valuation Date. According to the agreement, Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司) will build a new heating supply pipe network covering certain areas of the county and farms in the county.

The project construction details, project investment, area of heat supply, operation term and charging standard are agreed in the project agreements signed and feasibility study reports. The economic benefit of the projects is estimated in accordance with the above terms. The appraisal personnel reviewed the project agreements, and considered the project feasibility study report in terms of project investment, area of heat supply, operating term and pricing standard in conjunction with the agreement terms. As of the valuation date, the two long-term equity investments are in the early post-establishment stages, and the operations of the projects have not yet commenced. This valuation assumes that the forecast on energy-saving benefits could be realized when calculating the cash flow of the long-term equity investments. The appraisal value of the long-term equity investment unit was approximately RMB58.7 million discounted at a rate of 11.47%.

Amount Unit: RMB'000

Long-term equity investment	Proportion of shareholding	Appraisal value
Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司)	70%	23,059.40
Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司)	100%	<u>35,667.49</u>
Total		<u><u>58,726.89</u></u>

4. Determination of Interest-bearing Liabilities

Interest-bearing liabilities of the entity being assessed are short-term borrowings and long-term borrowings. For the purpose of this valuation, they are determined by using the cost method. The appraisal value is summarized as below:

Amount Unit: RMB'000

Interest-bearing liabilities	Book value	Appraisal value
Short-term borrowings	80,000.00	80,000.00
Long-term borrowings	79,400.00	79,400.00
Non-current liabilities due within one year	18,550.00	18,550.00
Total	177,950.00	177,950.00

The above book value is extracted from the unaudited financial statement as at 31 March 2014 of Tongfang Energy Saving.

(V) Conclusion for the Selection of Valuation Method

The value of the entire equity of shareholders	=	operating assets value + non-operating assets value + assets value premium – non-operating liabilities value + long-term equity investment value – interest-bearing debts value
		= 605.9 million – 105.9 million + 58.7 million – 178.0 million
		= 380.8 million

In view of the foregoing, Tongfang Energy Saving is valued using the income approach.

8. IMPLEMENTATION PROCESS OF THE VALUATION PROCEDURES AND THE STATUS

1. For the purpose of purchasing the equity through the proposed issue of Shares, the entrusting party decided to entrust us to appraise the value of the entire equity interest in Tongfang Energy Saving after contracting with us. After accepting the commission, we confirmed the purpose of the valuation and the value type of the subject of valuation according to the characteristics of the economic behavior of this valuation project, acquired a preliminary understanding regarding the specific contents of the subject of valuation and scope of valuation, determined the valuation date after negotiating with the entrusting party, proposed a valuation plan and entered into a Valuation Engagement Agreement.
2. Pursuant to the requirements of Asset Valuation Standard-Valuation Procedures, we provide the entity being assessed with reporting materials required for assets valuation, direct the entity being assessed to verify the assets, conduct a forecast on corporate profit and fill in the relevant forms; upon completion of the aforesaid preliminary preparation works, the Target Company will organize appraisers to enter into the valuation site, commence on-site survey, conduct necessary investigation through enquiry, confirmation, verification, monitoring, survey and inspection to have an understanding of the economic and technical utilization conditions and legal title status of the assets, analyze the specific conditions of the subject of valuation, collect the recent financial data information of the subject of valuation as well as those as at Valuation Date, check whether the valuation information reported by the subject of valuation, verify whether all the information collected is true and complete and pay necessary attention to the legal title status of the assets.
3. According to the valuation-related requirements of laws, standards, and pricing basis, we adopt the appropriate valuation methods based on the specific conditions of the assets, collect the market price information as the basis of its value determination, and conduct valuation and estimation on the carrying value after verification to confirm the valuation value.
4. We summarize the valuation results, analyze the conclusions of valuation, prepare the valuation report, implement the internal tri-tier audit, and submit the valuation report.

9. VALUATION ASSUMPTIONS

The conclusions of valuation regarding the subject of this valuation are based on the following assumptions, pre-conditions, and limiting conditions. In the event that these pre-conditions and conditions cannot be reasonably satisfied, there will be different degrees of changes in general in the conclusions of valuation of this report.

1. Assuming that the Target Company will continue as a going concern during the Forecast Period.
2. Assuming that both transaction parties have equal status regarding the assets that are to be transacted or are intended to be transacted in the market. Each of them has adequate opportunity and time to access the market information to make rational judgments regarding the transaction value of the subject of valuation.
3. Assuming there are no significant changes in the current relevant PRC laws, regulations and policies and national macroeconomic situation, and no significant changes in the political, economic and social environment in the regions where the parties of this transaction are located.
4. Assuming that the operator of the Target Company is responsible, and the management of the Target Company are capable of performing their respective duties.
5. Assuming that the Target Company maintains its existing management approach and standard and the business scope and approach are consistent with the current direction.
6. Assuming that the Target Company will not have new investment projects other than the contracted projects and those with letters of intent contracted.
7. Assuming that the projects of the Target Company with letter of intent contracted can be invested and constructed in accordance with expected investment timeframe and scale, and can realize the expected energy-saving benefit.
8. Assuming that the energy-saving benefit proceeds of the Target Company for the forecast year can be recovered during the agreed payment period in the contract.
9. Assuming that the selling and management expenses of the Target Company for the forecast year are well-matched with the scales of projects invested and operated.
10. Assuming that the Target Company will be able to gain necessary capital for operation during the forecast year.

11. Assuming the Heating Supply Business Licenses (供熱經營許可證) of Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司) being the subsidiary of Tongfang Energy Saving (which would expire on 31 December 2016) shall be renewed upon expiry of the validity period during the forecast period and Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司), also being the subsidiary of Tongfang Energy Saving is able to obtain the Heating Supply Business License which is renewable during forecast period.
12. Assuming the tax incentives policy on VAT of heating supply enterprises executed by Tongfang Energy Saving (XinLe) Heating Power Co., Ltd.* (同方節能(新樂)熱力有限公司) and Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司), the two subsidiaries of Tongfang Energy Saving, shall continue to be executed in the future.
13. Assuming the Target Company shall fully comply with all relevant laws and regulations, unless otherwise stated.
14. Assuming the accounting policies to be adopted by the Target Company in the future are basically in line with those adopted herein in preparation of this report in material respects.
15. Assuming there are no material changes in the relevant interest rates, taxation base and tax rates and other policy-based levies, etc.
16. Assuming there are no force majeure and unforeseeable factors that will exert significant adverse impact on subject of valuation.

Valuation assumptions are the condition precedents of the establishment of valuation conclusions. According to the assumptions of capital as required by operation available during the forecast year, this valuation selected the target capital structure for the forecast of the capital structure of Tongfang Energy Saving. In the event that such assumptions changed, the capital structure of the Target Company would also change, resulting in changes in discount rate and valuation conclusions. Details of the sensitivity analysis on the effect of the assumptions on the valuation conclusion performed by us are as follows:

Change %	Capital structure	The value of the entire equity of shareholders (RMB'000)
+50%	42.86%	399,261.40
+40%	40.00%	396,057.20
+30%	37.14%	392,216.40
+20%	34.28%	388,423.70
+10%	31.43%	384,611.00
0	28.57%	380,750.38

Change %	Capital structure	The value of the entire equity of shareholders (RMB'000)
-10%	25.71%	376,354.10
-20%	22.86%	371,949.90
-30%	20.00%	367,008.80
-40%	17.14%	362,628.70
-50%	14.29%	357,712.90

10. VALUATION CONCLUSION

Upon the implementation of the aforesaid assets valuation methods and procedures, for the purpose of the proposed acquisition of equity interest in Tongfang Energy Saving by the entrusting party by proposed issue of Shares regarding all the equity interest in Tongfang Energy Saving, the following conclusions of valuation are formed with reference to the market value as at 31 March 2014:

Through the valuation process with income approach and conditional upon the valuation assumptions and limiting conditions, the carrying value of the entire equity interest before the valuation in Tongfang Energy Saving at the Valuation Date is approximately RMB50 million, and such interests were valued at approximately RMB380.8 million, representing an increase of approximately RMB330.8 million, or 661.87%.

11. EXPLANATORY NOTES ON SPECIFIC MATTERS

1. Tongfang Energy Saving has pledged the income right of the contracted EMC projects to obtain bank loans. The pledged projects include: the comprehensive utilization project of waste heat recycling in the Ganguo Thermoelectricity Plant of Jixi Coal Mining Group Co., Ltd.* (雞西礦業(集團)有限責任公司), the comprehensive utilization project of waste heat recycling of Wangkui Thermal Sunshine Heating Power Co., Ltd.* (望奎陽光熱力有限公司), the comprehensive utilization project of waste heat recycling of Dengta Hongyang Thermoelectricity Co., Ltd.* (燈塔市紅陽熱電有限公司), the comprehensive utilization project of waste heat recycling of Tangshan Branch of Hebei Iron and Steel Company Limited* (河北鋼鐵股份有限公司), the comprehensive utilization project of waste heat recycling of Ningan Chemical Co., Ltd.* (寧安化工有限公司) and the comprehensive utilization project of waste heat recycling of Tangshan Kailuan Thermoelectricity Co., Ltd.* (唐山開灤熱電有限責任公司). The terms of such pledge vary from 1 to 5 years. This valuation did not take into account the impact of such matter on the conclusions of valuation.

2. Tongfang Energy Saving's Mondeo sedan with license plate of Jin HQ4775 was transferred prior to the Valuation Date without accounting treatment, for which Tongfang Energy Saving has made a representation that the ownership of such vehicle was not vested in it. This valuation did not take into account the impact of such matter on the conclusions of valuation.
3. The registration number of the land use right certificate of Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司), a subsidiary of Tongfang Energy Saving, is Youyi Xian Guoyong (2011) No.1000510003. This industrial land is located at the North Fourth Street and the east of West Fourth Road, Youyi Town, Youyi Prefecture, Heilongjiang Province and is granted through transfer on 16 March 2011. Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司) purchased such land use right from Heilongjiang Xin Youyi Heating Power Co., Ltd.* (黑龍江鑫友誼熱力有限公司). The registered owner of the land use right is Heilongjiang Xin Youyi Heating Power Co., Ltd.* (黑龍江鑫友誼熱力有限公司). Up to the Valuation Date, the change of registration is being filed by the owner of land use right. This valuation did not take into account the impact of such matter on the conclusions of valuation.
4. Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司), a subsidiary of Tongfang Energy Saving, has a total of six real estates of brick-concrete structure with an aggregate area of 780.64 square meters. These six real estates, acquired by Tongfang Energy Saving (Youyi) Heating Power Co., Ltd.* (同方節能(友誼)熱力有限公司) from Heilongjiang Xin Youyi Heating Power Co., Ltd.* (黑龍江鑫友誼熱力有限公司), are all located at the north of Beier Dao Street, Youyi Prefecture, and the center of Xi San Road and Xi Si Road. As at the Valuation Date, the real estate ownership certificates have not yet been obtained. It is undertaken in this valuation in accordance with the Letter of Undertaking issued by the entity being assessed that such assets should be vested in the entity being assessed which should bear any subsequent losses from the dispute over ownership. This valuation did not take into account the impact of such matter on the conclusions of valuation.
5. The conclusions of this valuation by income approach did not take into account the discount factor of liquidity due to the unavailability of adequate relevant statistics of market transactions, and the absence of the basis of analysis and judgement for the impact of liquidity on the value of the entity being assessed.
6. With regard to the existence of other defects concerning the entrusting party and the entity being assessed which may affect the conclusions of valuation, without any specific explanation by the entrusting party and the entity being assessed and in the absence of any knowledge by the appraisers after performing the valuation procedures, the valuation institution and the appraisers shall assume no respective responsibility.

7. The conclusions of this valuation did not take into account the impact of certain matters that may affect the conclusions of valuation, such as mortgage and warranty issues that may be undertaken in the future, and special transaction parties that may increase or decrease the price paid, nor has it taken into account the impact of change in national macroeconomic policy as well as natural force and other force majeure on the value of the entity being assessed. In the event of any change of the aforesaid conditions as well as other assumptions and pre-conditions of the going concern principle as abided during the valuation, the conclusions of valuation will, in general, become invalid and the users of the report should not use this valuation report, otherwise they should bear all the consequences arising therefrom.
8. The conclusions of this valuation did not take into account any tax liability that arises as a result of appreciation or depreciation in the valuation and the users of this project valuation report should consider the impact of the relevant tax liability when using the valuation report.
9. During the period from the Valuation Date to the date of this valuation report, the entrusting party and the entity being assessed did not report any subsequent event that will have significant impact, nor were the appraisers able to discover any subsequent event that will have a significant impact.
10. In the event of any material changes in the quantity of assets during the period from the date of valuation report to the effective period of the valuation report, the assets amount should be adjusted accordingly. In the event that there are changes in the pricing standard of assets and has an obvious impact on the conclusion of assets valuation, then a re-assessment should be conducted.
11. There is no potential tax liability which may arise from the sale of the Target Company to be acquired under the Acquisition other than stamp duty payable under Hong Kong laws at a rate of 0.2% of the consideration of the 25% equity interest in Target Company (ie. 25% of the amount of valuation assuming the Target Company is sold at the amount of valuation indirectly through the sale of the holding company/companies of the Company, which is/are incorporated in Hong Kong).

In the meantime, the Directors consider the potential tax liabilities resulting from the sale of Target Company at the amount of valuation are unlikely to be crystallised as the Company has no intention to sell the Target Company upon completion of the Sale and Purchase Agreement.

For the treatment of the said specific matters and the possible impact of these specific matters on the conclusions of valuation, the valuation report users should pay attention to the impact of these specific matters on economic behavior.

12. EXPLANATORY NOTES ON RESTRICTIONS OF USE OF VALUATION REPORT

1. The valuation report shall only be used for valuation purpose and applied as specified.
2. The valuation report shall be only used by the users of the valuation report as specified therein, unless otherwise as required in the PRC laws and regulations.
3. The valuation report can only be used officially after obtaining the prior approval from the relevant competent authorities if the valuation report is required to be reviewed by or filed with the competent authorities in accordance with the current PRC statutory requirements.
4. Save as otherwise provided by the laws and regulations and agreed by the relevant parties, the contents of the valuation report shall not be extracted, referenced to or disclosed to public media without the consent from the valuation institution.
5. According to Rule 11 of “Assets Valuation Standards-Valuation Report” issued by China Appraisal Society, the valuation report can be used for a validity period of one year, i.e. from the date of valuation of 31 March 2014 as stated therein to 30 March 2015 and the valuation report shall not be used after the validity period as stated therein.
6. The right to construe the valuation report shall be vested on the valuation institution of this project only, save as otherwise required by the PRC laws and regulations.
7. The Chinese valuation report shall prevail over the English version.

13. DATE OF VALUATION REPORT

20 June 2014.

Legal Representative of the Appraiser: (Lin Mei)

PRC Certified Asset Appraiser: (Liu Chunru)

PRC Certified Asset Appraiser: (Gao Hu)

Beijing Zhuoxindahua Valuation Co., Ltd.

20 June 2014

* For identification purpose only

**(A) REPORT FROM THE REPORTING ACCOUNTANTS IN RELATION TO THE
VALUATION OF THE TARGET COMPANY**

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2014

**TO THE BOARD OF DIRECTORS OF TECHNOVATOR INTERNATIONAL
LIMITED**

We refer to the discounted future cash flows on which the valuation report (the "Valuation") dated 20 June 2014 prepared by Beijing Zhuoxindahua Appraisal Co., Ltd in respect of the appraisal of the valuation of the entire equity interests of Tongfong Energy Saving Engineering Technology Co., Ltd. (the "Target Company") as at 31 March 2014 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Rule 11.1(a) of the Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "Takeovers Code").

Responsibilities

The directors of Technovator International Limited (the "Directors") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

It is our responsibility to report, as required by paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of opinion

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilation of the discounted future cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code, and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG*Certified Public Accountants*

Hong Kong

(B) LETTER FROM THE INDEPENDENT FINANCIAL ADVISER IN RELATION TO
THE VALUATION OF THE TARGET COMPANY

Quam Capital Limited
18-19/F, China Building
29 Queen's Road, Central
Hong Kong

24 June 2014

The board of directors of Technovator International Limited

Principal place of business in Hong Kong:

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

Registered Office:

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

Dear Sirs,

We refer to the circular (the "**Circular**") dated 24 June 2014 issued by Technovator International Limited (the "**Company**") to its shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter. We refer to the valuation report dated 20 June 2014 (the "**Valuation Report**") prepared by Beijing Zhuoxindahua Appraisal Co., Ltd* (the "**Valuer**"), an independent valuer of the Company, in relation to the fair market value of a 100% equity interest in the Target Company. Since the Valuation Report was prepared based on a discounted future cash flows method, the valuation of the Target Company in the Valuation Report constitutes a profit forecast under Rule 14.61 of the Listing Rules and Rule 10.3(b) of the Takeovers Code (the "**Profit Forecast**").

This letter is issued in compliance with the requirement under Rule 10.3(b) of the Takeovers Code. We have reviewed the Profit Forecast and discussed with the Valuer regarding the Profit Forecast, including, in particular, the valuation approach, and the basis and assumptions adopted in the Valuation Report prepared by the Valuer in the course of their work. We have also considered the letter from KPMG dated 24 June 2014 addressed to the Company regarding their opinion on

whether, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in accordance with the basis and assumptions as set out in the Valuation Report.

Our work has been undertaken for the purpose of reporting solely to the Board and for no other purpose. We have not independently verified the computations leading to the Valuer's determination of the fair market value of the Target Company. We have assumed that all information, materials and representations provided to us by the Group, the Target Company and the Valuer, including all information, materials and representations referred to or contained in the Circular, for which the Directors are responsible, are true, accurate, complete and not misleading, and that no material fact or information has been omitted from the above at the time they were provided or made, which remains the same up to the date of the Circular. Accordingly, we accept no responsibility, whether expressly or implicitly, on the fair market value of the Target Company as set out in the Valuation Report prepared by the Valuer.

This letter also constitutes a report pursuant to Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of Ms. Liu Chunru and Mr. Gao Hu from the Valuer and the expertise and track records of the Valuer whose report is set out in the Circular. With regard to the qualifications and experience of Ms. Liu Chunru, Mr. Gao Hu and the Valuer, we have conducted reasonable checks to assess their relevant qualifications and experience and have reviewed relevant information provided by them on their qualifications and experience. On the basis of the checks conducted and the information provided, we are satisfied that Ms. Liu Chunru, Mr. Gao Hu and the Valuer are suitably qualified and experienced to prepare the Valuation Report.

On the basis of the foregoing and without giving any opinion on the reasonableness of the basis and assumptions on the valuation method adopted in the Valuation Report prepared by the Valuer, for which the Valuer and the Company are responsible, we are of the opinion that and the Board confirmed that the forecasts included in the Valuation Report, for which the Directors are responsible, have been made after due care and consideration and is satisfied that the Valuer has the qualification and experience to undertake the valuation of the Target Company.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Deputy Chief Executive Officer

* For identification purpose only

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2014

TO THE BOARD OF DIRECTORS OF TECHNOVATOR INTERNATIONAL LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Technovator International Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2013 and related notes as set out on pages 302 to 305 of Appendix V to the circular dated 24 June 2014 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page 302 of Appendix V to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of TFRH Investments Limited ("TFRH Investments"), Excel Perfect Investments Limited ("Excel Perfect"), and Tongfang Energy Saving Engineering Technology Co., Ltd. (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") (the "Proposed Acquisition") on the Group's assets and liabilities as at 31 December 2013 as if the Proposed Acquisition had taken place at 31 December 2013. As part of this process, information about the Group's assets and liabilities as at 31 December 2013 has been extracted by the Directors from the consolidated financial statements of the Group for the year ended 31 December 2013, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG*Certified Public Accountants*

Hong Kong

(1) Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of the Enlarged Group, being the Group together with the Target Group, as if the Proposed Acquisition had been completed on 31 December 2013 for the unaudited pro forma consolidated statement of assets and liabilities. Details of the Proposed Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with Paragraph 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Proposed Acquisition pursuant to the terms of the purchase agreement by and among the Company, Valueworth and Resuccess (the "Purchase Agreement"). Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position or results of the Enlarged Group had the Proposed Acquisition been completed as of the specified date or any future date.

The unaudited pro forma financial information of the Enlarged Group is based upon the consolidated balance sheet of the Group as at 31 December 2013, which has been extracted from the Company's annual report for the year then ended as referred to in Appendix I to this circular; the combined balance sheets of the TFRH Investments Group and Excel Perfect as at 31 December 2013 as extracted from the accountants' reports of TFRH Investments Group and Excel Perfect set out in Appendix IIB and Appendix IIC respectively to this circular, and adjusted on a pro forma basis to reflect the effect of the Proposed Acquisition. These pro forma adjustments are (i) directly attributable to the Proposed Acquisition and not relating to other future events and decision and (ii) factually supportable based on the terms of the Sale and Purchase Agreement.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group set out in the annual report of the Company for the year ended 31 December 2013 and other financial information included elsewhere in this circular.

(2) Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2013

	The Group		Pro forma adjustments			The Enlarged Group	
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
		(note 3a)	(note 3b)	(note 3c)	(note 3d)	(note 3e)	
Non-current assets							
Property, plant and equipment	9,776	32,308					42,084
Construction in progress	–	15,655					15,655
Lease prepayments	–	539					539
Intangible assets	21,553	63					21,616
Goodwill	15,554						15,554
Investment in subsidiaries	–				61,690	(61,690)	–
Investment in an associate	–		2,664	(2,664)			–
Other financial assets	26,471						26,471
Deferred tax assets	474	691					1,165
Total non-current assets	73,828						123,084
Current assets							
Inventories	16,216	370					16,586
Trade and other receivables	65,665	23,570	1				89,236
Gross amounts due from customers							
for contract work	451						451
Trading Securities	1,823						1,823
Cash and cash equivalents	53,553	15,669	22				69,244
Total current assets	137,708						177,340
Current liabilities							
Trade and other payables	55,090	30,877					85,967
Gross amounts due to customers							
for contract work	51						51
Loans and borrowings	14,402	19,190					33,592
Obligations under finance leases	30						30
Income tax payable	1,625	136					1,761
Total current liabilities	71,198						121,401
Net current assets	66,510						55,939
Total assets less current liabilities	140,338						179,023

	The	Pro forma adjustments					The
	Group	USD'000	USD'000	USD'000	USD'000	USD'000	Enlarged
	USD'000	(note 3a)	(note 3b)	(note 3c)	(note 3d)	(note 3e)	Group
							USD'000
Non-current liabilities							
Loans and borrowings	6,512	28,199					34,711
Obligations under finance leases	114						114
Deferred tax liabilities	1,965						1,965
Other non-current liabilities	35,571						35,571
	<u>44,162</u>						<u>72,361</u>
Total non-current liabilities	<u>44,162</u>						<u>72,361</u>
Net assets	<u>96,176</u>						<u>106,662</u>

(3) Notes to the unaudited pro forma financial information of the Enlarged Group

- a. The adjustment represents the acquisition of the TFRH Investments as if the Proposed Acquisition had been completed at 31 December 2013 for the unaudited pro forma consolidated statement of assets and liabilities. The adjustment amounts are derived from translating the financial information of the TFRH Investments as set out in Appendix IIB to this circular from RMB to US\$ at the rate of US\$100 = RMB609.69 for the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2013. No representation is made that RMB denominated amounts have been, could have been or could be converted to US\$, or vice versa, at the rates applied or at any other rates or at all.
- b. The adjustment represents the acquisition of the Excel Perfect as if the Proposed Acquisition had been completed at 31 December 2013 for the unaudited pro forma consolidated statement of assets and liabilities. The adjustment amounts are derived from translating the financial information of the Excel Perfect as set out in Appendix IIC to this circular from HKD to US\$ at the rate of US\$100 = HKD775.49 for the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2013. No representation is made that HKD denominated amounts have been, could have been or could be converted to US\$, or vice versa, at the rates applied or at any other rates or at all.
- c. The adjustment represents the elimination of Excel Perfect's equity investment in respect of the 25% equity interest of the Target Company.
- d. The adjustment represents the consideration for the Proposed Acquisition by issuance of 119,608,189 shares ("Consideration Shares"), out of which 89,706,142 Consideration Shares will be issued and allotted to Resuccess Investments Limited ("Resuccess") and 29,902,047 Consideration Shares will

be issued and allotted to Valuworth Ventures Limited (“Valuworth”), credited as fully paid up. The fair value of the Consideration Shares is determined by the directors of the Company and the shareholders of Resuccess and Valuworth with reference to the recent market price of the shares of the Company. The fair value of the Consideration Shares is determined to be HK\$478,400,000 (equivalent to US\$61,690,000 at translation rate of US\$100 = HKD775.49) at an issue price of HK\$4 per share. The amount of the fair value of the Consideration Shares is subject to change upon completion of the Acquisition.

- e. The unaudited pro forma financial information of the Enlarged Group has been prepared on the basis of business combination involving entities under common control for the acquisition of TFRH Investments, in which the Group and TFRH Investments are ultimately controlled by the same party both before and after the Proposed Acquisition, and the acquisition of Excel Perfect is accounted for as an acquisition of non-controlling interest in the Target Company. The assets and liabilities of TFRH Investments and Excel Perfect acquired by the Group are measured at the carrying amounts as recorded by the Target Group and the difference between the carrying amount of the net assets of the Target Group acquired by the Group and the fair value of the Consideration Shares to be issued by the Group is adjusted to reserves.
- f. No adjustment has been made to the unaudited pro forma financial information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, printer, taxes and levies and other expenses) as the Directors determined that such costs are insignificant.
- g. Apart from the adjustments as stated above, no adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2013.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group, the Acquisition and the Whitewash Waiver.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

- (a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on (i) the last Business Day of each of the calendar month during the period between October 2013 to March 2014, being the six months preceding the announcement of the Company dated 17 April 2014 and ending on the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last Business Day of each of the Calendar month during the period between the Last Trading Day and the Latest Practicable Date; and (iv) the Latest Practicable Date, respectively:

Month	Closing price per Share (HK\$)
31 October 2013	3.16
29 November 2013	3.47
31 December 2013	3.29
30 January 2014	3.03
28 February 2014	4.09
31 March 2014	4.28
17 April 2014 (being the Last Trading Day)	4.60
30 April 2014	4.09
30 May 2014	3.95
Latest Practicable Date	3.84

- (b) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the announcement of the Company dated 17 April 2014, and ending on the Latest Practicable Date were HK\$4.69 on 11 March 2014 and HK\$2.95 on 6 February 2014.

3. SHARE CAPITAL AND OPTIONS

(a) Share Capital

The Shares do not have par value. As at the Latest Practicable Date, the issued and fully paid or credited as fully paid capital is:

521,520,000 Shares US\$38,121,000*

(* Rounded up to the nearest thousand)

All the issued Shares rank pari passu with each other in all respects including the rights in respect of capital, dividend and voting.

(b) Options

As at the Latest Practicable Date, the Company had the following outstanding options:

- (i) there were outstanding options granted on 23 July 2012 pursuant to the Share Option Scheme conferring rights to subscribe for an aggregate of 48,500,000 new Shares at the exercise price of HK\$1.15, of which (a) options conferring rights to subscribe for 24,250,000 Shares may be vested on 23 July 2014 with the exercise period from 23 July 2014 to 22 July 2017, and (b) options conferring rights to subscribe for 24,250,000 Shares may be vested on 23 July 2015 with the exercise period from 23 July 2015 to 22 July 2017; and
- (ii) there were outstanding options granted on 5 September 2013 pursuant to the Share Option Scheme conferring rights to subscribe for an aggregate of 52,100,000 new Shares at the exercise price of HK\$3.06, of which (a) options conferring rights to subscribe for 26,950,000 Shares may be vested on 5 September 2015 with the exercise period from 5 September 2015 to 4 September 2018, and (b) options conferring rights to subscribe for 25,150,000 Shares may be vested on 5 September 2016 with the exercise period from 5 September 2016 to 4 September 2018.

As at the Latest Practicable Date, none of the above options have become vested under the vesting condition pursuant to the Share Option Scheme.

“Share Option Scheme” refers to the share option scheme of the Company for the eligible persons adopted by the Shareholders pursuant to a resolution passed on 18 May 2012.

Since 31 December 2013 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding options, warrants or conversion rights affecting the Shares.

4. DISCLOSURE OF INTERESTS

Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“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 have taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register

required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in the Company

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Seah Han Leong	Interest in a controlled corporation ⁽¹⁾	8,000,000	1.53%
	Beneficial owner	10,120,000	1.94%
	Beneficial owner	5,800,000 ⁽²⁾	1.11% ⁽³⁾
Mr. Lu Zhicheng	Beneficial owner	8,800,000 ⁽²⁾	1.69% ⁽³⁾
Mr. Zhao Xiaobo	Beneficial owner	5,120,000	0.98%
	Beneficial owner	5,800,000 ⁽²⁾	1.11% ⁽³⁾
Mr. Leung Lok Wai	Beneficial owner	3,600,000 ⁽²⁾	0.69% ⁽³⁾

Notes:

- (1) Mr. Seah Han Leong is the sole shareholder of M2M Holdings Ltd and hence is deemed to be interested in all the Shares held by M2M Holdings Ltd.
- (2) Shares subject to options under the Share Option Scheme.
- (3) The percentage of interest in the issued share capital of the Company is calculated based on the number of issued Shares without taking into account Shares which may be allotted and issued to all grantees upon their after full exercise of the options under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had been 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 have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV 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.

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 the Latest Practicable Date, the persons or corporations (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Tsinghua Tongfang Co., Ltd* (同方股份有限公司)	Beneficial owner	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	65,436,320	12.55%
Zana China Fund L.P	Interest in a controlled corporation ⁽²⁾	65,436,320	12.55%
Diamond Standard Ltd	Beneficial owner	36,000,000	6.90%
Sun Lu	Beneficial owner	2,928,000	0.56%
	Interest in a controlled corporation ⁽³⁾	36,000,000	6.90%
Liu Feng	Interest in a controlled corporation ⁽⁴⁾	36,000,000	6.90%

Notes:

- (1) Tsinghua Tongfang Co., Ltd* (同方股份有限公司) is the sole shareholder of Resuccess Investments Limited and hence is deemed to be interested in all the Shares held by Resuccess Investments Limited.
- (2) Zana China Fund L.P. is the sole shareholder of Dragon Point Limited and hence is deemed to be interested in all the Shares held by Dragon Point Limited.

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

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were 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.

5. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

- (a) no Shares acquired by the Controlling Shareholder and the Controlling Shareholder Concert Parties in pursuance to the Acquisition would be transferred, charged or pledged to any other persons;
- (b) no agreement, arrangement or understanding (including any compensation arrangement) exists between the Controlling Shareholder or Controlling Shareholder Concert Parties and any of the Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependence upon the Acquisition and/or the Whitewash Waiver;
- (c) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver;
- (d) there was no agreement or arrangement between any Directors and any other persons which was conditional on or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver or otherwise connected with the Acquisition and/or the Whitewash Waiver;
- (e) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Acquisition and/or the Whitewash Waiver;
- (f) there was no material contract entered into by the Controlling Shareholder, Resuccess or Valueworth in which any Director had a material personal interest;
- (g) save for Mr. Lu's interest in the options to subscribe for an aggregate of 8,800,000 Shares as disclosed in this circular, the directors of the Controlling Shareholder, Resuccess and Valueworth were not interested in any Relevant

Securities of the Company, or had dealt for value in the Relevant Securities of the Company during the Relevant Period;

- (h) neither the Controlling Shareholder nor the Controlling Shareholder Concert Parties had dealt for value in the Relevant Securities of the Company during the Relevant Period;
- (i) no subsidiary of the Company, pension fund of the Company or any subsidiary of the Company, or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options and derivatives in respect thereof; or had dealt for value in the Relevant Securities of the Company during the Relevant Period;
- (j) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (k) there were no Shares, convertible securities, warrants, options or derivatives in the Company which were managed on a discretionary basis by fund managers connected with the Company; and no such fund managers (as mentioned immediately above in this paragraph) had dealt for value in the Relevant Securities of the Company during the Relevant Period;
- (l) no Relevant Securities of the Company had been borrowed or lent by the Company or any of the Directors;
- (m) the Company did not have any interest in the Relevant Securities of the Controlling Shareholder or Resuccess or Valuworth, and had no dealings in the Relevant Securities of the Controlling Shareholder or Resuccess or Valuworth during the Relevant Period;
- (n) save for Mr. Lu’s interest in 477,108 shares of the Controlling Shareholder, representing approximately 0.02% of the equity interest in the Controlling Shareholder, none of the Directors had any interest in the Relevant Securities of the Controlling Shareholder or Resuccess or Valuworth, or had dealt for value in any Relevant Securities of the Controlling Shareholder or Resuccess or Valuworth during the Relevant Period;
- (o) none of the Directors had dealt for value in any Relevant Securities of the Company during the Relevant Period; and
- (p) save for Mr. Seah Han Leong and Mr. Zhao Xiaobo whose shareholdings in the Company are disclosed in the paragraph headed “DISCLOSURE OF INTERESTS — Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” in this appendix, the Directors were not holding and will not hold, on the date of the EGM, any Shares and

accordingly will not vote on the resolutions to be proposed at the EGM. Mr. Seah and Mr. Zhao, in respect of their own beneficial shareholdings, intend to vote in favour of the resolutions to be proposed at the EGM.

6. DIRECTORS' SERVICE CONTRACTS

- (1) As at the Latest Practicable Date, none of the Directors had any continuous or fixed term service contracts with the Company or any of its subsidiaries or associated companies that were entered into or amended within the Relevant Period.
- (2) As at the Latest Practicable Date, none of the Directors had entered into any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more.
- (3) As at the Latest Practicable Date, none of the Directors had entered into any fixed term contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.
- (4) As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contracts with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

7. MATERIAL LITIGATION

No member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the material contracts which are not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries that have been entered into by the Group, and which are or may be material in relation to the business of the Group taken as a whole are set out below:

- (a) the Sale and Purchase Agreement;
- (b) the share purchase agreement dated 26 September 2012 entered into between Distech Controls Contrôles Inc. ("Distech Controls"), an operating subsidiary of the Company, and Groupe Arcom in relation to repurchase of the Class A common shares of Distech Controls from Groupe Arcom by Distech Controls at a consideration of CAD\$5,762,505.55, details of which are set forth in the announcement dated 2 October 2012 and the circular dated 31 October 2012 issued by the Company;

- (c) subscription agreement dated 11 March 2013 entered into among Distech Controls, the Company, Caisse de dépôt et placement du Québec, EnerTech Capital Partners IV L.P., Export Development Canada, Fonds de solidarité des travailleurs du Québec (F.T.Q.), Fonds de solidarité FTQ Investissements Croissance I S.E.C., SVIC No. 25 New Technology Business Investment L.L.P., Investissements W2 Inc., Mr. Étienne Veilleux and 9109-2759 Québec Inc. in relation to subscription of the shares of Distech Controls at a consideration of CAD\$25,499,956.32, details of which are set forth in the announcement dated 11 March 2013 and the circular dated 5 April 2013 issued by the Company; and
- (d) a construction contract in the business model of “Build-Transfer” dated 26 March 2013 (with consideration of approximately RMB180 million), entered into among Karamay Construction Management Co., Ltd.*, the Controlling Shareholder and TongFang Technovator Int (Beijing) Co., Ltd* (being a wholly-owned subsidiary of the Company), details of which are set forth in the circular dated 23 April 2013 issued by the Company.

9. EXPERTS

The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Quam Capital Limited	A corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
KPMG	Certified public accountants
Beijing Zhuoxindahua Appraisal Co., Ltd* (“Beijing Zhuoxindahua”)	An independent PRC valuer qualified to carry out valuation in the PRC

Each of Quam Capital, KPMG and Beijing Zhuoxindahua has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report(s), letter(s) or opinion(s) (as the case may be) and references to its name or its report(s), letter(s) or opinion(s) (as the case may be) included in this circular in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Quam Capital, KPMG and Beijing Zhuoxindahua:

- i) was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- ii) did not have any direct or indirect interest in any assets which have been, since 31 December 2013 (being the date to which the latest published audited

consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. DIRECTORS' COMPETING INTERESTS OR DIRECTORS' INTEREST IN ASSETS OR CONTRACTS RELATING TO THE GROUP

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates is considered to have any interest in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

11. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2013, the date to which the latest audited financial statements of the Company were made up.

12. MISCELLANEOUS

- (a) The registered office of the Controlling Shareholder is 30/F, Block A, Tsinghua Tongfang Technology Building, Wangzhuang Road, Haidian District, Beijing, PRC. The Controlling Shareholder is a joint stock limited company incorporated in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange. The directors of the Controlling Shareholder are Lu Zhicheng, Zhou Liye, Fan Xin, Tong Libin, Pan Xiaojiang, Yang Li, Zuo Xiaolei*.
- (b) The registered office of Resuccess is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The directors of Resuccess being Mr. Lu, Mr. Fan and Mr. Pan Jin. Its correspondence address in Hong Kong is c/o Norcola Company Limited, 33/F, Shui On Centre, No. 6-8 Harbour Road, Hong Kong.
- (c) The registered office of Valueworth is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The directors of Valueworth being Ms. Tso Lap and Mr. Ke Yi. Its correspondence address in Hong Kong is 27/F, Two Exchange Square, Central, Hong Kong.

- (d) The registered office of OP Financial is P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. Its correspondence address in Hong Kong is 27/F, Two Exchange Square, Central, Hong Kong.
- (e) The address of Mr. Lu is Room 101, Unit 3, No. 12 Building, Lan Qi Ying, Haidian District, Beijing, PRC.
- (f) The joint company secretaries of the Company are (1) Mr. Leung Lok Wai and (2) Ms. Tan Siew Hua.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the below documents are available for inspection (i) at Unit 1602-1603, Tower 1, China HK City, 33 Canton Road, Tsim Sha Tau, Kowloon, Hong Kong during normal business hours on any weekday (except public holidays); (ii) on the website of the Company (<http://www.technovator.com.sg>); and (iii) on the website of the SFC (www.sfc.hk) from the date of this circular up to and including the EGM date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2013;
- (c) the Letter from the Board;
- (d) the letter from the Connected Transactions IBC to the Independent Shareholders, the text of which is set out on pages 40 to 41 of this circular;
- (e) the letter from the Whitewash Waiver IBC to the Independent Shareholders, the text of which is set out on page 42 of this circular;
- (f) the letter of advice from Quam Capital to the Independent Board Committees and the Independent Shareholders, the text of which is set out on pages 43 to 83 of this circular;
- (g) the accountants' reports prepared by KPMG in respect of the Target Group, TFRH Investments Group and Excel Perfect respectively, the text of which is set out in Appendices IIA, IIB and IIC to this circular respectively;
- (h) the report from KPMG in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;
- (i) the Valuation Report, the text of which is set out in Appendix III to this circular;

- (j) the report from KPMG and letter from Quam Capital in relation to the valuation of the Target Company, the text of which is set out in Appendix IV to this circular;
- (k) the Sale and Purchase Agreement;
- (l) the Procurement Agreement;
- (m) the loan agreement between the Target Company and Tongfang Artificial referred to in the section headed “Financial assistances provided by the Controlling Shareholder and its associates (other than the Group)” in the Letter from the Board;
- (n) the written consents referred to in the paragraph headed “EXPERTS” in this appendix;
- (o) the material contracts as referred to in the paragraph headed “MATERIAL CONTRACTS” in this appendix; and
- (p) this circular.

* *For identification purpose only*



TECHNOVATOR INTERNATIONAL LIMITED

同方泰德國際科技有限公司*

(incorporated in Singapore with limited liability)

(Company Registration No: 200507127G)

(Stock Code: 1206)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of Technovator International Limited (the “**Company**”) will be held on 14 July 2014 at 10:00 am at 10/F, United Centre, 95 Queensway, Hong Kong, for the purpose of considering and, if thought fit, to pass with or without amendments the following ordinary resolutions:

ORDINARY RESOLUTIONS

Words and expressions that are not expressly defined in this notice shall bear the same meaning as that defined in the circular dated 24 June 2014 published by the Company (the “**Circular**”).

1. “**THAT** the Sale and Purchase Agreement (a copy of which has been tabled at the meeting marked “A” and signed by the chairman of the meeting for identification purpose) and all transactions contemplated thereunder, be and are hereby approved, ratified and confirmed, and any one Director be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to the Sale and Purchase Agreement and all transactions contemplated thereunder.”
2. “**THAT** (a) the Procurement Agreement (a copy of which has been tabled at the meeting marked “B” and signed by the chairman of the meeting for identification purpose); (b) the proposed Annual Caps; and (c) the continuing connected transactions (as defined in the Listing Rules) contemplated thereunder, as more particularly set out in the section headed “Continuing Connected Transactions” of the letter from the Board set out in the Circular, be and are hereby approved, ratified and confirmed, and any one Director be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to the Procurement Agreement and all transactions contemplated thereunder.”
3. “**THAT**, subject to and conditional upon the passing of resolution numbered 1 above and the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Consideration Shares, the grant of the Specific Mandate to the Directors to exercise the powers of the Company to issue and allot the Consideration Shares be and is hereby approved, and any one Director be and is authorised

NOTICE OF EGM

to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the Specific Mandate.”

4. “**THAT**, subject to and conditional upon the passing of resolution numbered 1 above, the Whitewash Waiver granted or to be granted by the Executive be and is hereby approved and any one Director be and is hereby authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the Whitewash Waiver.”

By order of the Board
Technovator International Limited
Lu Zhicheng
Chairman

Beijing, 24 June 2014

Principal place of business in Hong Kong:

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

Registered Office:

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

As at the date of this notice, the Board comprises Mr. Zhao Xiaobo and Mr. Seah Han Leong as executive Directors; Mr. Liu Tianmin, Mr. Lu Zhicheng, Mr. Ng Koon Siong and Mr. Fan Xin as non-executive Directors; Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua as independent non-executive Directors.

Notes:

1. Any member entitled to attend and vote at the Meeting is entitled to appoint one or, if he is the holder of two or more shares, one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the above meeting or any adjournment thereof.

NOTICE OF EGM

3. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. 11 July 2014 has been fixed as the record date (the "Record Date") for determining the entitlement to attend and vote at the Meeting. In order to be eligible to attend and vote at the Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's brand share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on the Record Date.

* *For identification purpose only*