公路醫生®

Freetech
英達科技

Freetech Road Recycling Technology (Holdings) Limited
英達公路再生科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號: 6888

ANNUAL REPORT 年報 2014

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This Annual Report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Mr. Sze Wai Pan
(Chief Executive Officer)

Executive Directors
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors
Mr. Yeung Chin Chiu
Mr. Wang Lei

Independent Non-executive Directors
Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Mr. Lau Ching Kwong

Audit Committee
Ms. Yeung Sum *(Chairman)*
Mr. Tang Koon Yiu Thomas
Mr. Lau Ching Kwong

Nomination Committee
Mr. Sze Wai Pan *(Chairman)*
Mr. Tang Koon Yiu Thomas
Mr. Lau Ching Kwong

Remuneration Committee
Mr. Tang Koon Yiu Thomas *(Chairman)*
Ms. Yeung Sum
Ms. Sze Wan Nga

Authorised Representatives
Ms. Sze Wan Nga
Mr. Lim Eng Sun

Company Secretary
Mr. Lim Eng Sun

Registered Office
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Group Headquarters and Principal Place of Business in Hong Kong
29/F, Chinachem Century Tower
178 Gloucester Road
Wanchai, Hong Kong

PRC Headquarters
9 Hengfei Road
Nanjing Technology Development Zone
Nanjing City, Jiangsu Province, PRC

Compliance Adviser
Guotai Junan Capital Limited

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands Share Register and Transfer Office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

Auditor
Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Banker
DBS Bank (China) Limited

Company Website Address
www.freetech-holdings.hk

FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

	Year ended 31 December		
	2014	2013	Increase/
	HK$'000	HK$'000	(decrease)
Revenue	**390,434**	628,709	(37.9%)
Gross profit	**162,007**	341,118	(52.5%)
Profit attributable to owners of the Company	**58,497**	182,526	(68.0%)
Earnings per share (Basic) (HK cents)	**5.42**	19.93	(72.8%)
Proposed final dividend per share (HK cents)	**1.5**	5.5	(72.7%)

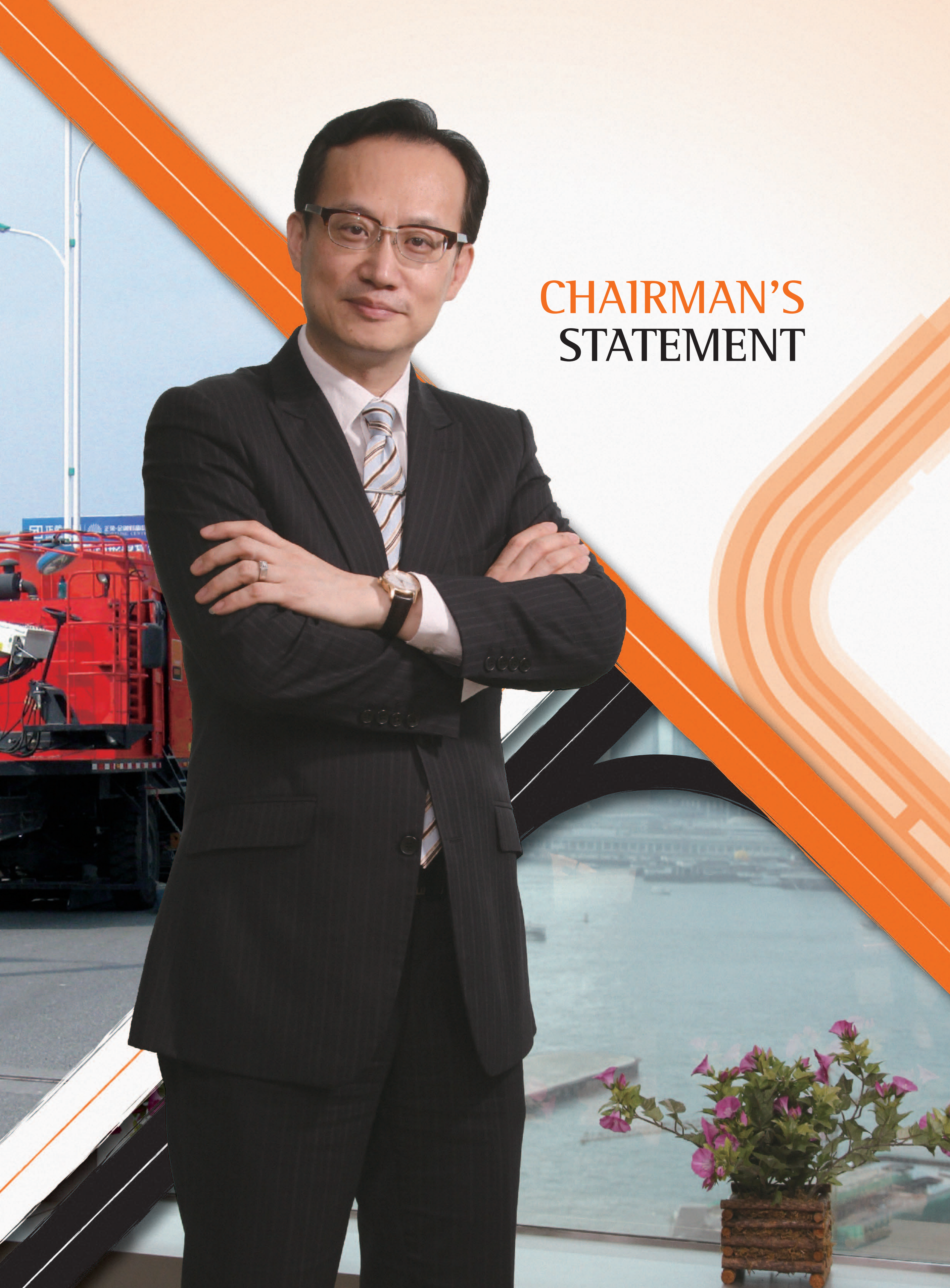
FINANCIAL POSITION

	31 December		
	2014	2013	Increase/
	HK$'000	HK$'000	(decrease)
Time deposits, bank balances and cash	**347,023**	614,697	(43.6%)
Total debts	**634**	71,401	(99.1%)
Equity attributable to the owners of the Company	**1,169,647**	1,193,908	(2.0%)

KEY FINANCIAL RATIOS

Gross profit margin	**41.5%**	54.3%	(23.6%)
Net profit margin	**13.8%**	28.6%	(51.8%)
Return on assets	**4.0%**	12.3%	(67.5%)
Current ratio	**7.5**	5.7	31.6%

CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present the annual report of Freetech Road Recycling Technology (Holdings) Limited (the "**Group**") for the financial year ended 31 December 2014.

PERFORMANCE

This year was a challenging year for the Group. Due to the adjustment of the Group's business strategies to control the number of new joint ventures set up, the total revenue and total profit attributable to owners of the Company was HK$390.4 million and HK$58.5 million respectively, a decrease of 37.9% and 68.0%, respectively, as against 2013. Notwithstanding the above, the Group remains the market leader using "Hot-in-Place" recycling technology in the asphalt pavement maintenance ("**APM**") industry in the People's Republic of China (the "**PRC**").

In 2014, the Group developed three kinds of new standard series equipment in its equipment research and development sector. This new equipment is designed to meet existing market needs and includes functionally integrated, small and flexible features. Following a request by Jiangsu Highway Department, the Group developed a piece of equipment which is equipped with repairing, pouring and cleaning functions which are able to meet the needs of the frontline personnel carrying out repair work of the highway system. These new customized standard series models enrich our product lines and expand our potential customer base. In addition, the Group developed a new piece of equipment named RM8800 under the existing modular series which allows the recycling of deeper layers of the asphalt pavement. This is a revolutionary breakthrough by using "Hot-in-Place" technology. In the APM service technology sector, other than the existing market for roads, we have developed the application of APM maintenance technology for use on runways at airports, providing greater market potential. The Group's technology and equipment are suitable to apply on the maintenance of airport runways due to their flexible, safe and fast features.

OUTLOOK

In 2015, a report on the government work of the State Council reiterated its desire to promote the green economy and support environmental protection. The development of recycling technology has become the mainstream in the road maintenance industry. Based on our current project information, we have seen an increase in demand for recycling technologies, equipment and services. Furthermore, the National Highway System will commence road inspections in the fourth quarter of 2015 and we anticipate that the overall market demand for our services will increase. Under these circumstances, the Group aims to continuously develop new series equipment, upgrade "Hot-in-Place" technology, strengthen its market position and expand its market share by using its advanced technology and brand influence.

As a "four-in-one" integrated solution provider (APM technology research and development, APM equipment manufacturing, APM servicing contracting and setting up the "Road Doctor Training Institute" to train high end talent in the road maintenance industry), the Group seeks to innovate on the existing business model. The Group has entered into cooperation agreements with Nanjing Lishui Economy Technology Development Company (南京溧水經濟技術開發總公司) and Jurong City Housing and Urban Rural Development Bureau in the Jiangsu Province (江蘇省句容市住房和城鄉建設局) to actively participate in the major infrastructure and maintenance management work of that area and city, including road maintenance and road expansion and reconstruction projects. Meanwhile, local governments in the PRC are implementing city construction public-private partnership ("**PPP**") models which will be a template for the Group to develop more PPP projects in the field of city road maintenance and reconstruction projects. In addition, the Group has signed strategic cooperation agreements with various provincial highway departments and has gradually implemented those agreements with a view to promoting and developing new APM technology. Further, the Group has, in cooperation with a well-known institute, started to perform research into energy saving, environmental protection and cyclical economy in road maintenance and construction areas. This cooperation will provide education support at the "Road Doctor Training Institute".

CHAIRMAN'S STATEMENT

In future, the Group will use model innovation, look for new business growth points and development platforms based on its existing business foundations, make contributions to society and enhance shareholder returns.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank all our colleagues and staff for their hard work. I would also like to express my gratitude to all of our business partners, customers and shareholders for their solid support.

Chairman
Mr. Sze Wan Pan
30 March 2015

MANAGEMENT
DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2014 was a challenging year for the Group. Despite the PRC government actively promoting the green economy and the road recycling technology industry maintaining a satisfactory development trend, the tightening of the domestic credit market has somewhat dragged on the otherwise positive momentum.

During the year under review, the existing businesses of the Group recorded a significant decline in revenue and profit mainly due to the adjustment of the Group's business strategies to control the number of new joint ventures set up and as a result, the number of modular series sold and the sale of Asphalt Pavement Maintenance ("**APM**") equipment decreased significantly. There was also a decrease in the gross profit margin of the APM services segment as the APM services projects were carried out in lower selling price areas and the Group performed more non-"Hot-in-Place" technology APM services projects including "Optimized Cold-in-Place" technology and road base maintenance projects. The Group also experienced an increase in impairment of trade receivables. As at 31 December 2014, the Group had a total of ten (2013: nine) joint ventures and associates engaging in the provision of APM services. During the year under review, the Group appointed an additional six local APM service providers as its franchisees to promote the Group's "Hot-in-Place" recycling technology in particular cities and as at 31 December 2014, it had total of twelve franchisees (2013: six).

In 2014, the Group's operating revenue was approximately HK$390.4 million, representing a decrease of approximately 37.9% against 2013. Total profit attributable to owners of the Company was approximately HK$58.5 million, representing a decrease of approximately 68.0%, against 2013. Notwithstanding the above, the Group remains a leading service provider using "Hot-in-Place" recycling technology in the APM industry in the PRC.

Asphalt Pavement Maintenance Services

During the year under review, we remained a leading service provider in the PRC market using "Hot-in-Place" recycling technology in the provision of APM services. Especially in the municipal road market, the Group remained the key player performing APM services. The Group successfully completed two trial APM maintenance contract using its "Hot-in-Place" recycling technology at the runway of the Changsa Huanghua International Airport (長沙黃花國際機場), Hunan Province of the PRC and Zhanjiang Airport* (湛江機場), Guangdong Province of the PRC. In addition, the Group performed other non-"Hot-in-Place" technology APM services projects including "Optimized Cold-in-Place" technology and road base maintenance projects. In 2014, the total APM areas serviced remained stable, and the Group completed 3.11 million square meters (2013: 3.06 million square meters). During the year under review, as part of the APM services projects were performed in lower selling price areas and the Group performed more non-"Hot-in-Place" technology APM services projects, and the corresponding period of 2013 included revenue generated from the city excavation rapid backfilling restoration process (城市道路開挖快速回填恢復施工工藝) which had higher selling price than other "Hot-in-Place" road maintenance projects, the APM services segment recorded revenue of approximately HK$335.7 million, representing a decrease of 2.8% against the corresponding period of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

APM Equipment

During the year under review, as a result of the Group's business strategies to appoint some local experienced APM service providers as its franchisees and the Company focusing on managing the existing joint ventures and assisting them to seize the business opportunity of road inspection which will be conducted in the second half of 2015, no modular series equipment was sold to new joint ventures and associates. During the year, our APM equipment segment generated revenue of HK$54.7 million, representing a decrease of 80.7% against 2013. Notwithstanding this, the Board considers that the Group has maintained its position as the leading APM equipment provider in PRC market.

Research and Development

To maintain our leading position in the use of "Hot-in-Place" recycling technology in the APM industry, the Group continues to invest in technological innovation.

New Patents

The Group continued to invest significant resources in our research and development efforts. As at 31 December 2014, we had registered 97 patents (31 December 2013: 87), of which 11 were invention patents (31 December 2013: seven), 74 were utility model patents (31 December 2013: 70) and 12 were design patents (31 December 2013: 10), and we had 14 patent pending applications (31 December 2013: 18), of which five were invention patents (31 December 2013: 12), eight were utility model patents (31 December 2013: four) and one was design patent (31 December 2013: two).

New Product Series

During the year under review, the Group continued to further strengthen its research and development capabilities, and focused its efforts on overcoming certain technological limitations in the APM service industry. In the equipment research and development sector, the Group introduced new standard series equipment under "Hot-in-Place" patching vehicles ("**PM series**") and traditional patching vehicles ("**TM series**") into the market. The new PM and TM series products did not only enrich our product line, they are also competitive in terms of performance and price, and are favourable particularly to those customers with limited budget. These new PM and TM series models are embedded with energy saving technologies and designed to adopt various kinds of optional features to meet different customer needs. The Company believes that this equipment will provide a favourable return to the Group in the near future.

In addition, we have developed a new piece of equipment named RM8800, which works with the existing modular series by using "Hot-in-Place" recycling technology to repair deeper layers of damaged asphalt road. The development of RM8800 enables the Group to further explore new markets, but also broaden the application of Group's "Hot-in-Place" recycling technology to echo the PRC government's guidelines on environmental restoration.

In the maintenance technology research sector, the Group successfully completed two trial APM maintenance contracts using its "Hot-in-Place" technology at the runway of the Changsha Huanghua International Airport (長沙黃花國際機場), Hunan Province of the PRC and Zhanjiang Airport* (湛江機場), Guangdong Province of the PRC ("**Trial Projects**"). The successful application of the Group's "Hot-in-Place" recycling technology in this new market demonstrated the high flexibility and efficiency of the Group's advanced technology. In addition, a qualified independent third party testing institution issued a report stating that the test results for the maintenance services provided under the Trial Projects satisfied the requirements of the Specifications For Asphalt Concrete Pavement Construction Of Civil Airports (民用機場瀝青混凝土道面施工技術規範).

The Group also had developed "Optimized Cold-in-Place" technology for asphalt surface and road base layers, which substantially shorten the curing time and traffic closures period compared to traditional Cold-in-Place recycling. The Company believes that these breakthroughs and developments could potentially lead to more business opportunities for the Group in the future.

Others

With strong research and development capabilities, we believe that our Group is able to adopt the most advanced technologies in the APM industry, provide customised solutions to our clients and maintain our competitive and leading status in the APM industry by using recycling technology.

Production Capacity

In February 2013, the Group commenced the construction of a new plant to increase its APM equipment production capacity. The new production facility was completed at the second quarter of 2014 and had increased the production output capacity of the Group by more than double.

OUTLOOK

The management of the Company believes that there will be tremendous market opportunities for the Group, in view of (i) the overall sustained growth of the APM industry in the PRC and the current low existing penetration rate of recycling technology; (ii) the Ministry of Transport conducting road inspections on highways in the second half of 2015 to check the quality and condition of the road maintenance work; (iii) the Group having research and development capabilities which widen the application of "Hot-in-Place" technology from road maintenance projects to airport runway project and road expansion and reconstruction project and having diversified its APM services to include "Optimized Cold-in-Place" and road base maintenance projects; (iv) the Group having set up a joint venture company (a 51% owned subsidiary) with COSCO (H.K.) Industry & Trade Holdings Limited to promote the application of the Group's "Hot-in-Place" recycling technology in the agreed region; (v) the Group having signed a strategic cooperation agreement with Jiangsu Provincial Communication Highway Department* (江蘇省交通運輸廳公路局) to cooperate in the development of new maintenance materials, technology, machinery products, marketing, promotion, industrialization and research and development in areas including recycling technology in asphalt pavement maintenance and the production of road maintenance equipment; and (vi) the Group having signed a cooperation agreement with Nanjing Lishui Economy Technology Development Company* (南京溧水經濟技術開發總公司) and Jurong City Housing and Urban Rural Development Bureau* (江蘇省句容市住房和城鄉建設局) to assist them to launch asphalt pavement projects with a total contract amount of approximately RMB90 million and RMB500 million, respectively.

As a leading service provider of "Hot-in-Place" recycling technology in the APM industry, the Group continues to build on its competitive advantages in order to capture opportunities from the current favorable government policies. The Group aims to continuously strengthen its market position and expand its market share through: (i) investing more resources to maintain our leading role in providing APM services through establishing more sales offices and appointing more salesman in different cities; (ii) increasing market penetration, particularly in cities where the use of "Hot-in-Place" recycling technology is currently relatively limited; (iii) appointing more local APM service providers as our franchisees; (iv) establishing new joint ventures; (v) further strengthening our research and development capabilities; (vi) cooperating with local highway departments and well known research institutions to develop and promote new recycling technology in the APM industry; (vii) cooperating with local cities and regions to assist them to launch asphalt pavement project; and (viii) actively developing the international market by the provision of APM services and selling APM equipment overseas.

Looking ahead, the Group remains optimistic about the business outlook. The Group is committed to upholding its development principle — "Efficient use of technology to create multi-win situations" ("善用科技，共創多贏"), and generating better returns for its shareholders.

MANAGEMENT
DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

The Group consists of two main business segments: the APM service segment, where we provide APM services under our registered trademark "公路醫生®" (Road Doctor) to repair damaged asphalt pavement surfaces, and the APM equipment segment, where we manufacture and sell a wide range of APM equipment.

The following is a description of the Group's operating activities during the year, with comparisons against 2013.

1. Revenue:

a. APM Services

	Year ended 31 December		
	2014	2013	Increase/
	HK$'000	HK$'000	(decrease)
Revenue	**335,738**	345,499	(2.8%)
Gross profit	**132,855**	145,093	(8.4%)
Gross profit margin	**39.6%**	42.0%	
APM area serviced (square metres)	**3,106,000**	3,057,000	1.6%

Revenue and gross profit for this segment both decreased as compared to 2013. Although the total area serviced remained stable against 2013 due to part of the APM services projects being performed in lower selling price areas and the Group performing more non "Hot-in-Place" technology APM service projects during the year under review. In addition, our 2013 results included revenue generated from the city excavation rapid backfilling restoration process (城市道路開挖快速回填恢復施工工藝) which had higher selling price than other "Hot-in-Place" road maintenance projects, revenue in 2014 decreased by 2.8% as compared to 2013.

The gross profit margin in this segment decreased from 42.0% in 2013 to 39.6% in 2014. This was mainly due to part of the APM services projects being conducted in lower selling price areas and the Group performing more non-"Hot-in-Place" technology APM services projects including "Optimized Cold-in-Place" technology and road base maintenance projects which has lower gross profit margin.

b. APM Equipment

	Year ended 31 December				
	2014 HK$'000	**units/ sets**	2013 HK$'000	units/ sets	Increase/ (decrease)
Revenue					
Standard series	**49,811**	**38**	91,410	39	(45.5%)
Modular series	**–**	**–**	186,903	8	(100.0%)
Repair and maintenance	**4,885**	**N/A**	4,897	N/A	(0.3%)
Total	**54,696**		283,210		(80.7%)

	2014 HK$'000	**Margin**	2013 HK$'000	Margin	Increase/ (decrease)
Gross profit					
Standard series	**25,978**	**52.2%**	52,648	57.6%	(50.7%)
Modular series	**–**	**N/A**	140,624	75.2%	(100.0%)
Repair and maintenance	**3,174**	**65.0%**	2,753	56.2%	15.3%
Total	**29,152**	**53.3%**	196,025	69.2%	(85.1%)

Revenue for the APM equipment segment for 2014 decreased by 80.7% as compared to 2013. This decrease was primarily due to the adjustment of the Group's business strategies to appoint some local experienced APM service providers as its franchisees and the Company focusing on managing the existing joint ventures and assisting them to seize the business opportunity of road inspections which will be conducted in the second half of 2015. Thus, although one new joint venture was set up, no modular series equipment was sold during the year under review (2013: four new joint ventures set up and seven sets of modular series sold). The revenue generated from sales of modular series equipment in 2014 decreased significantly as against in 2013. In addition, due to the tightened cash flow at the local government level in the PRC and most of the standard series sold in 2014 being lower selling price models, revenue generated from sales of standard series products for the year decreased by 45.5% as compared to 2013.

Gross profit margin decreased from 69.2% in 2013 to 53.3% in 2014, primarily due to significant decreases in sales of higher margin products, i.e. modular series products.

2. Other Gains and Losses

Other gains and losses for the year decreased by approximately HK$7.3 million, or approximately 96.1%, from HK$7.6 million in 2013 to HK$0.3 million in 2014, primarily due to the net effect of (i) increase in impairment of trade receivables; (ii) exchange losses were recorded in 2014 as a result of devaluation of RMB; and (iii) fair value gain from measurement of equity interest previously held in acquired subsidiaries to fair value.

3. Selling and Distribution Costs

Selling and distribution costs for the year decreased by 10.9% as against 2013, primarily due to the net effect of the increase in the number of employees in the sales department and the decrease in demonstration expenses as more APM services demonstration work was conducted in 2013 to promote our "Hot-in-Place" technology and to cater for the huge demand of road maintenance services before the road inspection to be conducted by the Ministry of Transport in the second half of 2015.

4. Administrative Expenses

Administrative expenses decreased by 5.5% as against 2013, primarily due to the net effect of (i) the administrative expenses in 2013 including one-off listing expenses of approximately HK$16.2 million; (ii) increase in the number of staff and salary level during the year under review; and (iii) increase in professional expenses after the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

5. Share of (Losses) Profits of Joint Ventures and Associates

The Group's share of profits from joint ventures was approximately HK$3.2 million in 2013. In 2014, the Group's share of losses from joint ventures was approximately HK$5.4 million.

The Group's share of profits from associates was approximately HK$331,000 in 2013. In 2014, the Group's share of losses from associates was approximately HK$1.4 million.

We believe that the relatively small contribution from these joint ventures and associates is primarily due to the early stage nature of the joint ventures and associated businesses.

6. Finance Costs

Finance costs decreased by approximately HK$4.3 million, or approximately 62.3%, from HK$6.9 million in 2013 to HK$2.6 million in 2014, primarily due to the Group's bank loans being settled by the proceeds from the Company's initial public offerings in the second half of 2013.

7. Taxation

Taxation decreased by approximately HK$28.4 million, or approximately 71.2%, from approximately HK$39.9 million in 2013 to approximately HK$11.5 million in 2014, which is in line with the trend in the profit before taxation for the year under review.

8. Profit

Profit attributable to owners of the Company decreased by approximately HK$124.0 million, or approximately 68.0%, from approximately HK$182.5 million in 2013 to approximately HK$58.5 million in 2014, primarily due to the net effect of (i) the decrease in revenue from the APM equipment segment due to the number of new joint ventures being set up and number of modular series being sold significantly declining; (ii) the decrease in gross profit margin of the APM services segment due to the part of the APM services project being performed in lower selling price areas and performing more non-"Hot-in-Place" technology APM services projects; and (iii) the share of losses of joint ventures and associates.

9. Financial Position

As at 31 December 2014, total equity of the Group amounted to approximately HK$1,214.2 million (2013: HK$1,214.2 million). This remained stable due to the net effect of (i) decreased in net profit for the year of 2014; (ii) distribution of dividend; and (iii) acquisition of subsidiaries.

The Group's net current assets as at 31 December 2014 amounted to approximately HK$876.7 million (2013: HK$1,020.4 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2014 was 7.5x (31 December 2013: 5.7x). The decrease in net current assets was mainly due to the net effect of distribution of dividend, prepayment for acquisition of land use rights and repayment of bank loans. The increase in current ratio was as a result of total current liabilities as at 31 December 2014 decreasing by approximately HK$80.5 million, or approximately 37.2%, after repayment of bank loan, whereas total current assets decreased by approximately HK$224.2 million, or approximately 18.1% only, compared with the equivalent amounts as at 31 December 2013.

10. Liquidity and Financial Resources and Capital Structure

As at 31 December 2014, the Group's bank balances and cash and time deposits amounted to approximately HK$347.0 million (31 December 2013: HK$614.7 million). The decrease was primarily due to the purchase of property, plant and equipment, acquisition of subsidiaries, prepayment for acquisition of land use rights, repayment of bank loans and distribution of dividends. As at 31 December 2014, the bank borrowings of the Group amounted to HK$0.6 million (31 December 2013: HK$71.4 million). As at 31 December 2013 and 2014, the Group was in a net cash position (time deposits, bank balances and cash less trade and other payables and bank borrowings) due to net cash proceeds received from the Company's initial public offering.

Tightened cash flow at the local government level in the PRC has slowed down receivables collection and revenue with shorter turnover days (APM equipment) decreased by 80.7% in 2014, as a result the trade receivables balance increased accordingly from HK$584.9 million as of 31 December 2013 to HK$602.9 million as of 31 December 2014. As at latest practicable date, third party customers had settled trade receivables amounting to HK$120.1 million (RMB94.8 million).

Though the Group does not have any collateral over most of the receivables, the management considers that there is no recoverability problem as the remaining amounts are due from local PRC government authorities. In order to minimize the risk of placing heavy reliance on entering into collaboration with local PRC government projects and to further diversify the overall credit risk, the Group will widen its customer base.

As at 31 December 2014, the Group's liquidity position remained strong and the Directors believe that this will enable the Group to expand in accordance with their plans. The Group strives to efficiently use its financial resources and adopts a prudent financial policy in order to maintain a healthy capital ratio and support its business expansion requirements.

11. Interest-Bearing Bank Borrowings

As at 31 December 2014, the Group had total debt of HK$0.6 million which was unsecured interest-bearing bank borrowing. As at 31 December 2013, the Group had total debt of HK$71.4 million, which comprised of secured and unsecured interest-bearing bank borrowings of HK$27.9 million and HK$43.5 million, respectively.

As at 31 December 2013, the secured interest-bearing bank borrowings were secured by:

(i) mortgages over the Group's buildings and plant and machinery with an aggregate carrying amount of approximately HK$45.2 million; and

(ii) mortgages over the Group's leasehold land with an aggregate carrying amount of approximately HK$7.0 million.

12. Use of Proceeds Raised from Initial Public Offerings ("IPO")

The Group received approximately HK$687.0 million net proceeds, after deducting underwriting fees and other related expenses, from the Company's IPO. These net proceeds were applied in the year ended 31 December 2014 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

		Net Proceeds	
	Available HK$ million	Utilised HK$ million	Unutilised HK$ million
Investment in research and development activities	137.4	117.5	19.9
Establishing joint ventures and expanding APM service teams	137.4	29.0	108.4
Manufacturing APM equipment and expanding our APM service teams	103.1	38.2	64.9
Acquisitions of other APM service providers	103.0	16.0	87.0
Constructing new production facility	68.7	45.0	23.7
Establishing sales offices in new markets and marketing expenses	68.7	30.2	38.5
General corporate purposes and working capital requirements	68.7	68.7	–
	687.0	344.6	342.4

The unutilised net proceeds have been deposited into short term deposits with licensed banks and authorised financial institutions in Hong Kong and the PRC.

13. Material Acquisitions and Disposals

In July 2014, the Group entered into a share purchase agreement with its joint venture partner, 岳陽市通衢興路公司 (Yueyang Tongqu Road Maintenance Corporation), to acquire a 4% equity interest in 湖南英達通衢道路再生工程有限公司 Hunan Freetech Tongqu Road Recycling Engineering Co., Ltd. ("Hunan Freetech Tongqu"), which was previously a 55% owned joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB1,680,000 (equivalent to approximately of HK$2,125,000) paid at the acquisition date. Together with the 55% equity interest held before the acquisition, the Group's interest in Hunan Freetech Tongqu increased to 59% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Hunan Freetech Tongqu, and the Group obtained the control in Hunan Freetech Tongqu, and Hunan Freetech Tongqu became a subsidiary of the Group. The acquisition was completed on 25 August 2014. Hunan Freetech Tongqu is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Hunan, PRC.

In October 2014, the Group entered into a share purchase agreement with its associate partner, 新疆交建宏升公路養護工程有限公司 (Xinjiang Jiaojian Hongshen Road Maintenance Co., Ltd.), to acquire a 40% equity interest in 新疆建達道路工程有限公司 Xinjiang Jianda Road Engineering Co., Ltd. ("Xinjiang Jianda"), which was previously a 49% owned associate of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB4,000,000 (equivalent to approximately of HK$5,074,000) paid at the acquisition date. In addition, the Group is committed to contribute a further RMB4,000,000 (equivalent to approximately HK$5,074,000) on or before 31 December 2015. Together with the 49% equity interest held before the acquisition, the Group's interest in Xinjiang Jianda increased to 89% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Xinjiang Jianda, and the Group obtained the control in Xinjiang Jianda, and Xinjiang Jianda became a subsidiary of the Group. The acquisition was completed on 3 November 2014. Xinjiang Jianda is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Xinjiang, PRC.

In November 2014, the Group entered into two share purchase agreements with its associate partners, 宿遷市交通投資有限公司 (Suqian Transportation Investment Co., Ltd.) and 城投(中國)資產管理有限公司 (City Investment (China) management Co., Ltd.), to acquire 16% and 14% equity interests in 宿遷恒通道路再生工程有限公司 Suqian Hengtong Road Recycling Constructions Co., Ltd. ("Suqian Hengtong") respectively, which was previously a 35% owned associate of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB5,600,000 and RMB4,900,000 (equivalent to approximately of HK$7,069,000 and HK$6,199,000) paid at the acquisition date respectively. Together with the 35% equity interest held before the acquisition, the Group's interest in Suqian Hengtong increased to 65% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Suqian Hengtong, and the Group obtained the control in Suqian Hengtong, and Suqian Hengtong became a subsidiary of the Group. The acquisition was completed on 27 November 2014. Suqian Hengtong is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Suqian, PRC.

Saved as disclosed above, during the year, there were no material acquisitions or disposals of any subsidiaries, associates or joint ventures.

14. Capital Commitments and Contingent Liabilities

The Group's capital commitments as at 31 December 2014 are set out in note 33 to the financial statements. As at 31 December 2014, the Group did not have any material contingent liabilities.

15. Financial Risk Management

The Group's business is exposed to a variety of financial risks, such as interest rate risk, foreign currency risk and credit risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate. The Group has not used any interest rate swaps to hedge its interest rate risk.

The Group collects most of its revenue in RMB and most of its expenditures as well as capital expenditures are also denominated in RMB. The Group's exposure to foreign currency risk arises mainly from certain bank deposits denominated in foreign currency of the relevant group entities. The Group has not hedged its foreign currency risk.

The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

16. Employees and Remuneration

As at 31 December 2014, the Group had a total of 550 full time employees (as at 31 December 2013: 558). The Group provides competitive remuneration packages to retain its employees including discretionary bonus schemes, medical insurance and other allowances and benefits in kind as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Sze Wai Pan	*Chairman, Chief Executive Officer and Executive Director*
Ms. Sze Wan Nga	*Executive Director*
Mr. Zhang Yifu	*Executive Director*
Mr. Chan Kai King	*Executive Director*
Mr. Yeung Chin Chiu	*Non-executive Director*
Mr. Wang Lei	*Non-executive Director*
Ms. Yeung Sum	*Independent Non-executive Director*
Mr. Tang Koon Yiu Thomas	*Independent Non-executive Director*
Mr. Lau Ching Kwong	*Independent Non-executive Director*

DIRECTORS — BIOGRAPHIES

Mr. Sze Wai Pan, aged 49, is the founder of our Group and one of our executive directors. He is the Chairman, chief executive officer, chief engineer and a member of the nomination committee of the Company. He is responsible for overall research and development activities, overall corporate strategies, planning and business development of the Group. He is a director of all our major PRC operating subsidiaries of our Group. Mr. Sze obtained a master of science degree (with distinction) from University of Warwick, United Kingdom in July 1991, and a master of arts degree from City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in December 1994. He has been a member of Nanjing Political Consultative Conference (南京市政治協商會議) since January 2008. Mr. Sze was awarded as a Nanjing Science and Technology Achievement Award (南京市科技功臣獎) from the Nanjing Municipal Government in May 2009 in recognition of his achievement in the APM industry and was nominated for the Young to Middle-aged Expert with Outstanding Contributions in Jiangsu Province for 2012 (2012江蘇省有突出貢獻中青年專家) from the Nanjing Municipal Bureau of Human Resources and Social Security (南京市人力資源和社會保障局) in February 2013. Further, Mr. Sze is an inventor of all our 97 registered patents and an inventor of our Hot-in-Place technology. Mr. Sze has over 20 years of experience in engineering, overall corporate strategies, planning and business development of our Group.

Ms. Sze Wan Nga, aged 41, was appointed the executive director and a member of remuneration committee of the Company in June 2011 and June 2013, respectively. She joined our Group in September 2000. She is a director of several major PRC operating subsidiaries of our Group. Ms. Sze obtained a master of business administration degree from Hong Kong Baptist University in November 2004, and a bachelor of combined science degree from Hong Kong Baptist University in November 1995, majoring in applied physics. She has over 16 years of experience in executive management and is primarily responsible for finance and overall operation of our Group. Ms. Sze is the sister of Mr. Sze.

Mr. Zhang Yifu, aged 61, was appointed the executive director of the Company in August 2012. He joined our Group in October 2001. Mr. Zhang is the head of the APM service quality department, APM service project business department and research centre of a major operating subsidiary of the Group since January 2011, May 2005 and February 2009, respectively. He was recognised as a senior engineer by Personnel Department of Shaanxi Province (陝西省人事廳) in 1998. Mr. Zhang obtained his bachelor's degree in 1977 from Xi'an Road College (西安公路學院) (now known as Chang An University (長安大學)) in highway construction and mechanical engineering. Mr. Zhang has over 30 years of experience in the mechanical engineering and is primarily responsible for the quality control and research and development relating to our APM services.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Kai King, aged 47, was appointed an executive director of the Company in August 2012. He joined our Group in September 2000. Mr. Chan became the head of the engineering and mechanical design institute of a major operating subsidiary of our Group in May 2005. Mr. Chan received a master's degree in mechanical engineering in October 2011 from Hong Kong Polytechnic University and a bachelor's degree in manufacturing engineering in December 1994 from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong). Mr. Chan has over 10 years of experience in the mechanical engineering industry and is primarily responsible for the research and development of products and technology of our Group.

Mr. Yeung Chin Chiu, aged 51, was appointed as a non-executive director of the Company in August 2011. Mr. Yeung has worked in CITIC Securities International Company Limited since September 2008, initially as a director (strategic planning) and was then promoted to executive director (strategic planning), mainly responsible for assisting the management with strategic planning work and related projects, including merger and acquisition initiatives. He has been a member of the Hong Kong Institute of Certified Public Accountants since 1990. Mr. Yeung graduated from the Hong Kong Polytechnic University in 1986 with a professional diploma in accountancy. Mr. Yeung has over 25 years of extensive financial reporting and management experience.

Mr. Wang Lei, aged 38, was appointed as a non-executive director of the Company in December 2013. He has been with CICC Jia Cheng Investment Management Co. Ltd. (中金佳成投資管理有限公司), a wholly-owned subsidiary of China International Capital Corporation Limited (中國國際金融有限公司), since 2009 and is now an executive director. He received a master of business administration in 2005 from Saïd Business School, University of Oxford. Mr. Wang has over 12 years of experience in investment banking and private equity.

Ms. Yeung Sum, aged 41, joined in August 2012 as an independent non-executive director of the Company. She is also a member of the audit committee and remuneration committee of the Company. Ms. Yeung worked in Ernst & Young between January 1995 and April 2012 where she was subsequently promoted as a partner in January 2006, mainly responsible for risk management and internal control services. Ms. Yeung obtained a bachelor of commerce majoring in finance and accounting from University of Auckland in May 1995. She has been a certified public accountant certified by the American Institute of Certified Public Accountants since April 2006, and a certified internal auditor awarded by the Institute of Internal Auditors since November 2002. Ms. Yeung has around 18 years of experience in finance and risk management.

Mr. Tang Koon Yiu Thomas, aged 67, joined in August 2012 as an independent non-executive director of the Company. He is also a member of audit committee, nomination committee and remuneration committee of the Company. Mr. Tang has been vice chairman of Greater China Leapfrog Teaching Foundation Limited, mainly responsible for the development of strategic initiatives, partnerships in the promotion of innovative technologies and methodologies for the improvement of teaching efficiency in schools. Between March 2003 to February 2005, Mr. Tang was the chairman and managing director of Elec & Eltek International Holdings Limited (依利安達國際控股集團) (a company previously listed on the Stock Exchange, where such listing had been withdrawn in March 2005) and Elec & Eltek International Company Limited (a company listed on the mainboard of the Singapore Exchange Securities Trading Limited). Between January 1997 and March 2003, Mr. Tang was the chief executive of Hong Kong Productivity Council (香港生產力促進局). Mr. Tang obtained a master of science degree, majoring in industrial engineering and administration from Cranfield Institute of Technology (currently known as Cranfield University) in May 1976. Mr. Tang has extensive experience in technologies and various industries.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau Ching Kwong, aged 72, joined in August 2012 as an independent non-executive director of the Company. He is also a member of the audit committee and the nomination committee of the Company. Mr. Lau has been an executive director of transportation of AECOM Asia Co. Ltd (艾奕康有限公司) since June 2003, mainly focusing on consulting work for infrastructure constructions in the PRC. Mr. Lau worked in the Hong Kong Government for over thirty years, mainly responsible for the design and construction of public works, and he served many roles including the chief engineer of Tsing Ma Bridge, the deputy director of Highways Department (路政署), the director of Civil Engineering and Development Department (土木工程署), respectively. Mr. Lau obtained a doctorate degree in engineering from Tsinghua University (清華大學) in June 1998, a master's degree majoring in bridge engineering in December 1970 from University of Surrey, and a diploma in building in July 1963 from Hong Kong Technical College (now known as Hong Kong Polytechnic University). Mr. Lau is a first class registered structural engineer recognised by the National Administration Board of Engineering Registration (Structural) of the PRC (全國注冊工程師管理委員會(結構)) in March 2002. He is a council member of China Civil Engineering Society (中國土木工程學會) since 2002 and a standing committee member since December 2008. Mr. Lau has over 40 years of experience in civil engineering.

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Jiang Yong He, aged 55, joined our Group in September 2000 as technical manager. He was appointed as the assistant president of major operating subsidiaries of our Group and the head of APM service project business department of a major operating subsidiary of our Group in January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for the management of APM service projects, and also responsible for formulating the APM service business strategy of our Group. Mr. Jiang graduated from Central South Mining and Metallurgy College (中南礦冶學院), which is now known as Central South University (中南大學), with a bachelor degree in July 1982, majoring in mining equipment.

Mr. Huang Liang Zhong, aged 52, joined our Group in September 2000 as production manager. Mr. Huang was appointed as the assistant president of major operating subsidiaries of our Group since January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for manufacturing and human resources of our Group. Mr. Huang graduated from Xi'an Road College (西安公路學院) (now known as Chang An University (長安大學)) with a bachelor's degree in July 1984, majoring in road construction equipment.

Mr. Lim Eng Sun, aged 38, is the chief financial officer and company secretary of our Company. Mr. Lim joined our Group in December 2011 as financial controller of our Group and is primarily responsible for the finance and accounting affairs of our Group. He has over nine years of experience in finance and accounting. Prior to joining our Group, between October 2006 and May 2011, Mr. Lim worked in Ernst & Young as a senior accountant and then a manager, mainly responsible for providing supervision of audit engagement. Mr. Lim received a bachelor of business degree in November 2001 and a master's of business law in November 2005 from Monash University. Since July 2006, Mr. Lim has been an associate member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of directors (the "**Board**") of the Company is pleased to present this Corporate Governance Report in the Annual Report for the year ended 31 December 2014.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), except code provision A.2.1 as more particularly described below.

Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Sze to assume both roles as the chairman and chief executive officer of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals. With the strong business experience of the directors, they do not expect any issues would arise due to the combined role of Mr. Sze. The Group also has in place an internal control system to perform a check and balance function. There are also three independent non-executive directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power safeguards in place to enable the Company to make and implement decisions promptly and effectively.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance with the Employees Written Guidelines was noted by the Company.

3. BOARD OF DIRECTORS

The Board currently comprises a total of 9 members, with four executive directors, two non-executive directors and three independent non-executive directors:

Executive Directors:

Mr. Sze Wai Pan *(Chairman and Chief Executive Officer)*
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors:

Mr. Yeung Chin Chiu
Mr. Wang Lei

Independent non-executive Directors:

Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Mr. Lau Ching Kwong

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules.

The biography details of the directors of the Company are set out under the section headed "Board of Directors and Senior Management" in this annual report.

Chairman and Chief Executive Officer

According to provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. According to the explanation under the above heading "Compliance with the Corporate Governance Code", the Board considers it would be beneficial to the Group for Mr. Sze to assume both roles as the chairman and chief executive officer of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals.

The role of chairman provides leadership for the Board and is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. Whereas the role of chief executive officer focuses on implementing objectives, policies and strategies approved and delegated by the Board.

Independent Non-executive Directors

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board. These independent non-executive directors are seasoned individuals from diversified backgrounds and industries and one member has appropriate accounting and related financial management expertise.

The independent non-executive directors serve the relevant function of bringing independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in the Rule 3.13 of the Listing Rules and considers them to be independent.

Non-executive Directors, Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the independent non-executive directors of the Company is appointed for a specific term of two years and is subject to retirement by rotation once every three years.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, and through him, to the senior management, for executing the Board's strategy and implementing its policies through the day-to-day management and operation of the Group.

The Board determines which functions are reserved to the Board and which are delegated to the senior management. It delegates appropriate aspects of its management and administrative functions to senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors, announcements of interim and final results and payment of dividends.

Directors' Continuous Professional Development

During the year, to develop and refresh their knowledge and skills, all directors have participated in appropriate continuous professional development training which covered updates on laws, rules and regulations and also directors' duties and responsibilities. The following shows the training of each of the directors received during the year:

	Attending seminars/ Briefings	Reading materials
Executive Directors:		
Mr. Sze Wai Pan	√	√
Ms. Sze Wan Nga	√	√
Mr. Zhang Yifu	√	√
Mr. Chan Kai King	√	√
Non-executive Directors:		
Mr. Yeung Chin Chiu	√	√
Mr. Wang Lei	√	√
Independent Non-executive Directors:		
Ms. Yeung Sum	√	√
Mr. Tang Koon Yiu Thomas	√	√
Mr. Lau Ching Kwong	√	√

4. BOARD COMMITTEES

The Board has established a remuneration committee, a nomination committee and an audit committee. They are each established with specific written terms of reference which deal clearly with their respective authority and responsibilities.

There was satisfactory attendance for meetings of the board committees during the year. The minutes of the committee meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Remuneration Committee

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy in respect of all directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also makes recommendations to the Board on the remuneration of non-executive directors (including independent non-executive directors).

The committee consults the chairman and the chief executive officer about remuneration proposals for other executive directors.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Members of the committee are:

Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	*(Chairman)*
Ms. Yeung Sum	*(Independent non-executive director)*	
Ms. Sze Wan Nga	*(Executive director)*	

The Remuneration Committee met once during the year under review to review and made recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of all directors and senior management and other related matters.

Details of directors' remuneration are set out in note 12 to the financial statements. Details of five highest paid employees are set out in note 12 of the financial statements. In addition, the remuneration of the three senior management fell within the band of less than HK$1,000,000 (2013: two senior management fell within the band of less than HK$1,000,000 and one senior management fell within the band of HK$1,000,001 to HK$1,500,000).

Nomination Committee

The purpose of the nomination committee is to lead the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

The committee is responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the vice chairman and the chief executive officer of the Company.

The committee consults the chairman of the Board about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the committee are:

Mr. Sze Wai Pan	*(Chief executive officer)*	*(Chairman)*
Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	
Mr. Lau Ching Kwong	*(Independent non-executive director)*	

Audit Committee

The purpose of the committee is to establish formal and transparent arrangements to consider how the Board applies financial reporting and internal control principles and maintains an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and considering any questions of its resignation or dismissal.

The committee reports to the Board any suspected fraud and irregularities, failures of internal control or suspected infringement of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the committee are:

Ms. Yeung Sum	*(Independent non-executive director)*	*(Chairman)*
Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	
Mr. Lau Ching Kwong	*(Independent non-executive director)*	

The members of the committee possess appropriate professional qualifications and/or experience in financial matters.

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held during the year under review. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2014 and for the year ended 31 December 2014, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, internal control systems and continuing connected transactions of the Company.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2015.

5. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

	Number of meetings held during the year Attended/Eligible to attend			
	Board	Remuneration committee	Nomination committee	Audit committee
Executive Directors:				
Mr. Sze Wai Pan	5/5		1/1	
Ms. Sze Wan Nga	5/5	1/1		
Mr. Zhang Yifu	5/5			
Mr. Chan Kai King	5/5			
Non-executive Directors:				
Mr. Yeung Chin Chiu	4/5			
Mr. Wang Lei	5/5			
Independent Non-executive Directors:				
Ms. Yeung Sum	4/5	1/1		2/2
Mr. Tang Koon Yiu Thomas	5/5	1/1	1/1	2/2
Mr. Lau Ching Kwong	5/5		1/1	2/2

6. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

(a) to develop and review the Company's policies and practices on corporate governance; and to review the compliance with the CG Code and disclosures in the corporate governance report;

(b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(c) to review and monitor the training and continuous professional development of the directors and senior management; and

(d) to develop, review and monitor the code of conduct applicable to the directors and employees.

7. FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements for the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Management provides such explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The Board considers that, through a review made by the audit committee, the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

8. INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective internal control system and for reviewing its effectiveness, particularly in respect of controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to eliminate, or otherwise manage, risks of failure in achieving the Company's objectives.

The Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. The Audit Committee oversees the internal control system of the Group and communicates any material issues to the Board.

9. AUDITORS' REMUNERATION

For the year, Deloitte Touche Tohmatsu charged the Group HK$1,380,000 for the provision of audit services, and other certified public accountant firms charged HK$495,000 for the provision of audit services to the Company's subsidiaries located in the Hong Kong and China. Also, Ernst & Young charged the Group HK$150,000 for the provision of non-audit services.

10. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting shall be called by the Board on the written resolution of any one or more shareholders of the Company, provided that such shareholder(s) held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be called for the transaction of any business specified in the written requisition to the Board or the company secretary of the Company; and shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at general meetings

There are no statutory provisions granting the right to shareholders to put forward or move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns with sufficient contact details to the Board to the following:

Address:	29/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong
Fax:	2363 7987
Email:	enquiry@freetech-holdings.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, except for the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

11. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

To enhance transparency, the Company endeavours to maintain open dialogue with shareholders through a wide array of channels such as the annual general meetings and other general meetings. Shareholders are encouraged to participate in these meetings.

The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at http://www.freetech-holdings.hk/, where up-to-date information and updates on the Company's business operations and developments, financial information and other information are available for public access.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2014.

1. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 37 to the financial statements. During the year, there were no significant changes in the nature of the Group's principal activities.

2. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2014 is set out in note 7 to the financial statements. The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

3. RESULTS AND DIVIDENDS

The Group's profits for the year ended 31 December 2014 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 44 to 133.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2014.

The directors recommended the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2014. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

4. FIVE YEARS FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 134. This summary does not form part of the audited financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

6. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2014 are set out in the note 27 to the financial statements.

7. SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the note 28 to the financial statements.

8. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

9. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

10. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 38 to the financial statements and in the consolidated statement of changes in equity, respectively.

11. DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$1,988.1 million (2013: HK$2,048.1 million), of which approximately HK$16.2 million (2013: HK$59.3 million) was proposed as a final dividend for the year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

12. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33.5% of the total sales for the year and sales to the largest customer included therein amounted to 13.1%. Purchases from the Group's five largest suppliers accounted for 34.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11.1%.

None of the directors or any of their close associates or any shareholders (which, to the best of the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

13. DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:
Mr. Sze Wai Pan
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors:
Mr. Yeung Chin Chiu
Mr. Wang Lei

Independent Non-executive Directors:
Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Mr. Lau Ching Kwong

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Zhang Yifu, Mr. Yeung Chin Chiu and Ms. Yeung Sum are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive directors and, as at the date of this report, still considers them to be independent.

14. DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract for an initial term of three years commencing from 7 June 2013 and is subject to termination by either party giving not less than three months' written notice.

Each of the non-executive directors has entered into a letter of appointment for an initial term of one to three years commencing on 7 June 2013 (or, in the case of Mr. Wang Lei, 23 December 2013), and is subject to termination by either party giving not less than three months' written notice.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

15. DIRECTORS' INTERESTS IN CONTRACTS

During the year, no director had an interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

16. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company

	Personal Interests				
Name of director	Number of awarded share held	Number of underlying shares held under equity derivatives	Corporate Interests	Total	Approximate percentage of existing issued share capital of the Company
Mr. Sze Wai Pan ("**Mr. Sze**")	–	–	524,965,260[1]	524,965,260	48.65%
Ms. Sze Wan Nga ("**Ms. Sze**")	–	200,000	29,640,000[2]	29,840,000	2.77%
Mr. Zhang Yifu	166,667	200,000	–	366,667	0.03%
Mr. Chan Kai King	166,667	200,000	–	366,667	0.03%

Note:

1. Mr. Sze is the beneficial owner of all the issued share capital of Freetech (Cayman) Ltd. ("**Freetech Cayman**"), Freetech (BVI) Limited ("**Sze BVI**") and Freetech Technology Limited ("Freetech Technology") and therefore is deemed to be interested in a total of 524,965,260 shares of the Company held by Freetech Cayman, Sze BVI and Freetech Technology.

2. Ms. Sze is the beneficial owner of all the issued share capital of Intelligent Executive Limited ("**Intelligent Executive**") (formerly known as Rank Best Holdings Limited) and therefore is deemed to be interested in 29,640,000 shares of the Company held by Intelligent Executive.

(ii) Long position in the shares of associated corporation of the Company

Name of director	Name of associated corporation	Capacity	Number of shares held in associated corporation	Percentage of existing issued share capital of the associated corporations
Mr. Sze	Freetech Cayman	Beneficial owner	1,162,956	100%
Mr. Sze	Sze BVI	Beneficial owner	1	100%
Mr. Sze	Freetech Technology	Beneficial owner	100	100%
Ms. Sze	Intelligent Executive	Beneficial owner	10,000	100%

Save as disclosed above, as at 31 December 2014, none of the directors nor the chief executive of the Company had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

17. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, so far as is known to the directors of the Company, the following persons or corporations (other than directors or the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company:

Name of shareholder	Capacity	Number of shares or underlying shares held in the Company	Approximate percentage of existing issued share capital of the Company
Freetech Technology[1]	Interest in controlled corporation	524,965,260	48.65%
Sze BVI[1]	Interest in controlled corporation	524,965,260	48.65%
Freetech Cayman[1]	Beneficial owner	524,965,260	48.65%
China International Capital Corporation Limited[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund GP, L.P.[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund I, L.P.[2]	Interest in controlled corporation	58,219,200	5.40%
Future Blossom Investment Limited[2]	Beneficial owner	58,219,200	5.40%
Ms. Sze On Na[3]	Interest in controlled corporation	56,420,520	5.23%
Smart Executive Group Limited[3]	Beneficial owner	56,420,520	5.23%

Notes:

1. The relationship between Freetech Technology, Sze BVI, Freetech Cayman and Mr. Sze is disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above.

2. Future Blossom Investment Limited is wholly owned by CICC Growth Capital Fund I, L.P. The general partner of CICC Growth Capital Fund I, L.P. is CICC Growth Capital Fund GP, L.P., which is indirectly wholly owned by China International Capital Corporation Limited. Hence, each of CICC Growth Capital Fund I, L.P., CICC Growth Capital Fund GP, L.P. and China International Capital Corporation Limited is deemed to be interested in the shares held by Future Blossom Investment Limited.

3. Smart Executive Group Limited is wholly owned by Ms. Sze On Na and Ms. Sze On Na is therefore deemed to be interested in the shares held by Smart Executive Group Limited.

Save as disclosed above, as at 31 December 2014, the directors of the Company are not aware of any other persons (other than the directors of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above) who held any interests or short positions in the shares, or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

18. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 7 June 2013 (the "**Share Option Scheme**") to provide incentives to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, direct or indirect shareholders, business or joint venture partners, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries) for their contribution to the long term growth of the Group and to enable the Company to attract and retain high caliber employees. On 16 October 2014, 4,970,000 share options have been granted to the Directors and employees with the exercise price of HK$2.50 and HK$2.75 per share for those share option exercisable from the first and third anniversary of the date of grant respectively. 50% of the share options granted will be vested on the first and third anniversaries of the date of grant respectively. The closing price of the Company's share on the date of grant of the share options was HK$1.70 per share. The option period of the share option is from 16 October 2014 to 15 October 2019. Among the share options granted, a total of 900,000 share options were granted to the Directors. No share option was exercised, cancelled or lapsed for the year ended 31 December 2014.

Movement of the share options under the Share Option Scheme for the year ended 31 December 2014 are as follows:

Name of participant	Options held at 1 January 2014	Granted during the year	Options held at 31 December 2014	Date of Grant	Exercise period	Exercise price per share	Weighted average share price immediately preceding the exercise date
Directors							
Sze Wan Nga	–	100,000	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Sze Wan Nga	–	100,000	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Zhang Yifu	–	100,000	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Zhang Yifu	–	100,000	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Chan Kai King	–	100,000	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Chan Kai King	–	100,000	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Yeung Sum	–	50,000	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Yeung Sum	–	50,000	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Tang Koon Yiu Thomas	–	50,000	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Tang Koon Yiu Thomas	–	50,000	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Lau Ching Kwong	–	50,000	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Lau Ching Kwong	–	50,000	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Continuous contract employees							
In aggregate	–	2,035,000	2,035,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
In aggregate	–	2,035,000	2,035,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
	–	4,970,000	4,970,000	16/10/2014			N/A

Further details of the Share Option Scheme are disclosed in note 29 to the financial statements.

19. SHARE AWARD SCHEME

On 7 May 2014, the Company adopted the share award scheme (the "**Share Award Scheme**") under which shares of the Company may be awarded to selected employees (including executive directors) of the Group (the "**Selected Employees**") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for a term of 10 years commencing on the adoption date.

The aggregate number of the awarded shares (the "**Awarded Shares**") permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 3% of the issued share capital of the Company from time to time. The maximum number of the Awarded Shares which may be awarded to a selected employee shall not exceed 1% of the issued share capital of the Company from time to time.

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no consideration. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Details of the Awarded Shares awarded during the year ended 31 December 2014 (2013: nil) are set out below:

Date of award	Number of shares awarded	Average fair value per share	Vesting date
16 October 2014	1,489,000	HK$1.39	16 October 2015

No Awarded Shares vested or lapsed for the year ended 31 December 2014. Movements of the Awarded Shares under the Share Award Scheme for the year ended 31 December 2014 are as follows:

Name of participant	Awarded shares at 1 January 2014	Granted during the year	Awarded shares at 31 December 2014	Vesting date
Directors				
Zhang Yifu	–	166,667	166,667	16 October 2015
Chan Kai King	–	166,667	166,667	16 October 2015
Continuous contract employees				
In aggregate	–	1,155,666	1,155,666	16 October 2015
	–	1,489,000	1,489,000	

Further details of the Share Award Scheme are disclosed in note 30 to the financial statements.

20. DEED OF NON-COMPETITION

The controlling shareholders of the Company, being Freetech Cayman, Sze BVI, Freetech Technology and Mr. Sze (together, the "**Controlling Shareholders**"), have confirmed to the Company of their compliance with the terms of the non-competition undertaking provided to the Company under a deed of non-competition dated 7 June 2013 ("**Deed**"). The independent non-executive directors of the Company have reviewed the confirmation given by the Controlling Shareholders and confirmed that all the undertakings under the Deed have been complied with by the Controlling Shareholders and duly enforced during the year ended 31 December 2014 and up to the date of the Annual Report. None of the new opportunities in any business, which is or may be in competition with the business of any member of the Company and its subsidiaries, that have been referred from any of our Controlling Shareholders under the Deed has been rejected by the Company during the year ended 31 December 2014 and up to the date of the Annual Report.

21. CONNECTED TRANSACTIONS

The Group entered into the following non-exempt continuing connected transactions during the year. The Stock Exchange has granted to the Company a conditional waiver from strict compliance with the announcement and/or independent shareholders' approval requirement for the following transactions subject to (i) the directors confirming that those transactions have been entered into in the ordinary and usual course of business of the Group, on arm's length and normal commercial terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and (ii) the proposed annual caps for those transactions are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The table below sets out the annual caps and the actual transaction amounts of those non-exempt continuing transactions in 2014:

Connected transactions	Connected person	Annual cap		Actual transaction amount	
			Approx.		Approx.
		RMB'000	HK$'000	RMB'000	HK$'000
Provision of APM services	Ordos Dongfang Road & Bridge Group Co., Ltd. * (鄂爾多斯市東方路橋集團股份有限公司) and its Subsidiaries ("**Dongfang Group**")	33,000	41,900	8,612	10,935
Purchase of asphalt	Dongfang Group	35,000	44,440	–	–

The independent non-executive directors of the Company have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the Company's shareholders as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have not qualified their report in respect of the continuing connected transactions disclosed above by the Group. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

22. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 36 to the financial statements. These related party transactions do not constitute connected transaction under the Listing Rules.

23. SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

24. AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors.

The audit committee has reviewed the financial statements with the management of the Company.

25. AUDITORS

Ernst & Young has resigned as the auditors of the Company with effect from 22 January 2015 as Ernst & Young and the Company could not reach an agreement on the audit fee for the financial year ended 31 December 2014.

Deloitte Touche Tohmatsu was appointed as the auditors of the Company on 23 January 2015 upon the resignation of Ernst & Young.

Deloitte Touche Tohmatsu shall retire, and a resolution for their reappointment as auditors of the Company will be proposed, at the forthcoming annual general meeting.

On behalf of the Board

Mr. Sze Wai Pan
Chairman and Chief Executive Officer
Hong Kong, 30 March 2015

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

To the members of Freetech Road Recycling Technology (Holdings) Limited
英達公路再生科技(集團)有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Freetech Road Recycling Technology (Holdings) Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 44 to 133, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	7	**390,434**	628,709
Cost of sales		**(228,427)**	(287,591)
Gross profit		**162,007**	341,118
Other income	8	**16,934**	9,675
Other gains and losses	9	**(275)**	(7,565)
Selling and distribution costs		**(23,201)**	(26,041)
Administrative expenses		**(64,922)**	(68,713)
Research and development costs		**(15,406)**	(24,658)
Other expenses		**(270)**	(501)
Share of (losses) profits of joint ventures		**(5,406)**	3,214
Share of (losses) profits of associates		**(1,393)**	331
Finance costs	10	**(2,553)**	(6,865)
Profit before taxation	11	**65,515**	219,995
Taxation	13	**(11,465)**	(39,944)
Profit for the year		**54,050**	180,051
Other comprehensive (expense) income for the year			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation		**(4,299)**	11,230
Other comprehensive (expense) income for the year		**(4,299)**	11,230
Total comprehensive income for the year		**49,751**	191,281
Profit (loss) for the year attributable to:			
Owners of the Company		**58,497**	182,526
Non-controlling interests		**(4,447)**	(2,475)
		54,050	180,051
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**54,253**	193,138
Non-controlling interests		**(4,502)**	(1,857)
		49,751	191,281
Earnings per share	15		
– Basic		**HK5.42 cents**	HK19.93 cents
– Diluted		**HK5.42 cents**	HK19.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	16	**250,908**	160,861
Goodwill	17	**4,907**	731
Prepaid lease payments	18	**6,506**	6,780
Other intangible assets	19	**433**	100
Prepayments for acquisition of land use rights		**44,366**	–
Interests in associates	20	**–**	9,283
Interests in joint ventures	21	**34,282**	39,433
Deferred tax assets	22	**10,044**	15,320
		351,446	232,508
Current assets			
Inventories	23	**58,713**	33,360
Bills, trade and other receivables	24	**599,525**	588,226
Prepaid lease payments	18	**205**	207
Time deposits	25	**236,240**	353,577
Pledged bank deposits	25	**6,880**	75
Bank balances and cash	25	**110,783**	261,120
		1,012,346	1,236,565
Current liabilities			
Trade and other payables	26	**128,221**	149,673
Taxation payable		**6,809**	16,829
Bank borrowings — current portion	27	**634**	49,629
		135,664	216,131
Net current assets		**876,682**	1,020,434
Total assets less current liabilities		**1,228,128**	1,252,942
Non-current liabilities			
Bank borrowings — non-current portion	27	**–**	21,772
Deferred tax liabilities	22	**13,888**	16,955
		13,888	38,727

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Capital and reserves			
Share capital	28	**107,900**	107,900
Reserves		**1,061,747**	1,086,008
Attributable to the owners of the Company		**1,169,647**	1,193,908
Non-controlling interest		**44,593**	20,307
Total equity		**1,214,240**	1,214,215

The consolidated financial statements on pages 44 to 133 were approved and authorised for issue by the board of directors on 30 March 2015 and are signed on its behalf by:

Mr. Sze Wai Pan
Director

Ms. Sze Wan Nga
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Shares held under the share award scheme HK$'000 (Note c)	Contributed surplus HK$'000 (Note a)	Reserve funds HK$'000 (Note b)	Share-based compensation reserve HK$'000	Foreign currency translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2013	178	–	–	25,328	47,776	–	24,164	123,139	220,585	22,164	242,749
Profit (loss) for the year	–	–	–	–	–	–	–	182,526	182,526	(2,475)	180,051
Other comprehensive income for the year	–	–	–	–	–	–	10,612	–	10,612	618	11,230
Total comprehensive income (expense) for the year	–	–	–	–	–	–	10,612	182,526	193,138	(1,857)	191,281
Special dividends declared (note 14)	–	–	–	–	–	–	–	(60,000)	(60,000)	–	(60,000)
Issuance of new shares for capitalisation of the amount due to the immediate holding company (note 28)	9,822	143,361	–	–	–	–	–	–	153,183	–	153,183
Capitalisation of issue of shares (note 28)	68,000	(68,000)	–	–	–	–	–	–	–	–	–
Issuance of new shares in connection with the listing of the Company's shares (note 28)	29,900	696,670	–	–	–	–	–	–	726,570	–	726,570
Share issue expenses	–	(39,568)	–	–	–	–	–	–	(39,568)	–	(39,568)
Transfer from retained earnings	–	–	–	–	24,104	–	–	(24,104)	–	–	–
At 31 December 2013 and 1 January 2014	107,900	732,463	–	25,328	71,880	–	34,776	221,561	1,193,908	20,307	1,214,215
Profit (loss) for the year	–	–	–	–	–	–	–	58,497	58,497	(4,447)	54,050
Other comprehensive expense for the year	–	–	–	–	–	–	(4,244)	–	(4,244)	(55)	(4,299)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(4,244)	58,497	54,253	(4,502)	49,751
Acquisition of subsidiaries (note 31)	–	–	–	–	–	–	–	–	–	28,788	28,788
Dividend recognised as distribution (note 14)	–	–	–	–	–	–	–	(59,345)	(59,345)	–	(59,345)
Transfer from retained profits	–	–	–	–	8,704	–	–	(8,704)	–	–	–
Share purchased for the share award scheme (note 30)	–	–	(19,724)	–	–	–	–	–	(19,724)	–	(19,724)
Equity-settled share award scheme (note 30)	–	–	–	–	–	430	–	–	430	–	430
Equity settled share option arrangements (note 29)	–	–	–	–	–	125	–	–	125	–	125
At 31 December 2014	107,900	732,463	(19,724)	25,328	80,584	555	30,532	212,009	1,169,647	44,593	1,214,240

Notes:

(a) The contributed surplus represents the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation, details of which are set out under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013.

(b) Pursuant to the relevant laws and regulations, a portion of the profits of the Company's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted to use.

(c) The amount represents payments by the Group to the trustee of the Share Award Scheme (as defined in note 30), net off with the vested portion to selected employees who have been awarded shares under the Share Award Scheme. Details of the Share Award Scheme is set out in note 30.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Operating activities			
Profit before taxation		**65,515**	219,995
Adjustments for:			
Interest income		**(11,948)**	(6,450)
Finance costs		**2,553**	6,865
Share of losses (profits) of associates		**1,393**	(331)
Share of losses (profits) of joint ventures		**5,406**	(3,214)
Depreciation		**23,679**	18,543
Amortisation of prepaid lease payments		**205**	204
Amortisation of other intangible assets		**60**	106
Loss on disposal of property, plant and equipment		**1,069**	409
Allowance for bad and doubtful debts, net		**17,393**	10,561
Fair value gain from remeasurement of equity interest previously held in acquisition subsidiaries to fair value		**(24,596)**	–
Share-based payment expense		**555**	–
Unrealised exchange differences		**(4,252)**	1,912
Operating cash flows before movements in working capital		**77,032**	248,600
Decrease (increase) in inventories		**(25,353)**	7,697
Increase in bills, trade and other receivables		**(17,226)**	(302,620)
Increase (decrease) in trade and other payables		**(30,999)**	59,820
Decrease in amounts due to the ultimate holding company		**–**	(4,350)
Cash generated from operations		**3,454**	9,147
Interest paid		**(2,553)**	(6,865)
Income tax paid		**(19,691)**	(39,053)
Net cash used in operating activities		**(18,790)**	(36,771)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Investing activities			
Interest received		**11,948**	6,450
Proceeds from disposal of property, plant and equipment		**87**	1,099
Purchase of property, plant and equipment		**(34,324)**	(48,508)
Placement of pledged bank deposits		**(25,684)**	–
Withdrawal of pledged bank deposits		**18,879**	373
Investment in a subsidiary		**(26)**	–
Investments in joint ventures		**–**	(33,783)
Advance to joint ventures		**(10,247)**	(8,645)
Repayment from a joint venture		**285**	–
Net cash outflow on acquisitions of subsidiaries	31	**(15,982)**	–
Investments in associates		**–**	(6,181)
Payments for other intangible assets		**(394)**	(18)
Placement of time deposits		**(26,031)**	(353,577)
Withdrawal of time deposits		**143,368**	–
Prepayment for acquisition of land use rights		**(44,366)**	–
Net cash from (used in) investing activities		**17,513**	(442,790)
Financing activities			
Bank borrowings raised		**634**	144,007
Proceeds from issue of shares		**–**	726,570
Share issue expenses		**–**	(39,568)
Repayments of bank borrowings		**(71,401)**	(160,623)
Dividends paid		**(59,345)**	(64,964)
Purchase of shares held under the share award scheme		**(19,724)**	–
Repayment of amounts due to the immediate holding company		**–**	(355)
Net cash (used in) from financing activities		**(149,836)**	605,067
Net (decrease) increase in cash and cash equivalents		**(151,113)**	125,506
Cash and cash equivalents at the beginning of the year		**261,120**	130,862
Effects of exchange rate changes on the balance of cash held in foreign currencies		**776**	4,752
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**110,783**	261,120

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2011 under the Companies Law, Chapter 22 of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are collectively referred to as the "**Group**") are principally engaged in the manufacturing and sale of road maintenance equipment and provision of road maintenance services in the People's Republic of China (the "**PRC**"). Details of its subsidiaries are set out in note 37.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 26 June 2013.

The Company's functional currency is Renminbi ("**RMB**"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). The directors of the Company consider that the presentation of the consolidated financial statements in HK$ is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) New and revised HKFRSs adopted during the year

The Group has applied for the first time in the current year the following amendments to HKFRSs, and a new Interpretation:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) New and revised HKFRSs adopted during the year *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities *(Continued)*

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) New and revised HKFRSs adopted during the year *(Continued)*

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HK(IFRIC)-Int 21 Levies

The Group has applied HK(IFRIC)-Int 21 Levies for the first time in the current year. HK(IFRIC)-Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC)-Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after 1 January 2017.
4 Effective for annual periods beginning on or after 1 July 2014.
5 Effective for annual periods beginning on or after 1 January 2016.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future will not have any significant impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations *(Continued)*

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions *(Continued)*

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Continued)*

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of Amendments to HKFRS 10 and HKAS 28 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of Amendments to HKFRS 10 and HKAS 28 until the Group performs a detailed review.

Annual Improvements to HKFRSs 2010–2012 Cycle

The *Annual Improvements to HKFRSs 2010–2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

Annual Improvements to HKFRSs 2010–2012 Cycle *(Continued)*

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011–2013 Cycle

The *Annual Improvements to HKFRSs 2011–2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New and revised HKFRSs issued but not yet effective *(Continued)*

Annual Improvements to HKFRSs 2012–2014 Cycle

The *Annual Improvements* to *HKFRSs 2012–2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

(c) Change in presentation of consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows

In the current year, the directors of the Company decided to change the classification of certain line items in the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of profit or loss and other comprehensive income, principally involving the reclassification on the consolidated statement of profit or loss and other comprehensive income of research and development costs from other expenses to a separate line item of research and development costs, and on the consolidated statement of financial position the reclassification of bills and trade receivables, cash and cash equivalents into additional line items, to better reflect the financial information of the Group's activities. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for the year ended 31 December 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(c) Change in presentation of consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows *(Continued)*

The effect of changes in presentation for the preceding year by line items presented in the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows is as follows:

	Original stated HK$'000	Adjustments HK$'000	Restated HK$'000
Consolidated statement of profit or loss and other comprehensive income:			
Other income	–	9,675	9,675
Other gains and losses	–	(7,565)	(7,565)
Research and development costs	–	(24,658)	(24,658)
Other expenses	(36,129)	35,628	(501)
Other income and gains	13,080	(13,080)	–
	NA	–	NA
Consolidated statement of financial position:			
Trade and bills receivables	548,784	(548,784)	–
Prepayments, deposit and other receivables	39,649	(39,649)	–
Bills, trade and other receivables	–	588,226	588,226
Prepaid lease payments	–	207	207
Time deposits	–	353,577	353,577
Bank balance and cash	–	261,120	261,120
Cash and cash equivalents	614,697	(614,697)	–
Trade payables	79,163	(79,163)	–
Other payables and accruals	70,510	(70,510)	–
Trade and other payables	–	149,673	149,673
	NA	–	NA

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(c) Change in presentation of consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows *(Continued)*

	Original stated HK$'000	Adjustments HK$'000	Restated HK$'000
Consolidated statement of changes in equity:			
Retained earnings	162,216	59,345	221,561
Proposed final dividend	59,345	(59,345)	–
Change for the year	NA	–	NA
Consolidated statement of cash flows:			
Net cash used in operating activities	(30,321)	(6,450)	(36,771)
Net cash used in investing activities	(296,375)	(146,415)	(442,790)
Net cash from financing activities	605,067	–	605,067
Net increase in cash and cash equivalents	278,371	(152,865)	125,506
Cash and cash equivalents at the beginning of the year	130,862	–	130,862
Effects of exchange rate changes on the balance of cash held in foreign currencies	4,752	–	4,752
Cash and cash equivalents at the end of the year, represented by bank balances and cash	413,985	(152,865)	261,120

No consolidation statement of financial position as at 1 January 2013 has been presented as the changes in classification and policy disclosed above have no effects on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance (Cap. 32), which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32) in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from services is recognised in the period in which the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land for own use *(Continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generated unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On disposal of a group entity that is not a foreign operation, the exchange differences accumulated in equity relating to the translation of assets and liabilities of that group entity into presentation currency of the Group are transferred to retained earnings.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Hong Kong's Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

The Company operates a share option scheme and share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled share-based payments**").

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimates of the number of options and awards that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with corresponding adjustments to share-based compensation reserve.

For share options and awards that vest immediately at the date of grant, the fair value of the share options and awards granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained earnings.

Where the Company's employee share trust purchases shares from the market, the consideration paid, including any directly attributable incremental costs is presented as shares held under the share award scheme and presented as a deduction against equity attributable to the Company's equity holders.

When the awarded shares are transferred to the awardees upon vesting, the related cost of the awarded shares previously recognised in "shares held under the share award scheme", and the related employment costs of the awarded shares previously recognised in "share-based compensation reserve" are transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are all loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills, trade and other receivables, pledged bank deposits, time deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a bills, trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and residual value of property, plant and equipment, and impairment of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. An impairment loss is recognised for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying amount.

At 31 December 2014, the carrying amount of property, plant and equipment amounted to approximately HK$250,908,000 (2013: HK$160,861,000) with nil balance of accumulated impairment loss at both 31 December 2014 and 31 December 2013, details of which are set out in note 16.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is the higher of fair value less cost of disposal and the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of goodwill is HK$4,907,000 (net of accumulated impairment loss of Nil) (2013: HK$731,000 (net of accumulated impairment loss of Nil)), details of which are set out in note 17.

Allowance for inventories

Management reviews the ageing analysis of inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. A considerate amount of judgement is required in assessing the ultimate realisation of these inventories. If the market conditions were to change, resulting in a change of provision for obsolete items, the difference will be recorded in the period it is identified. Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses. As at 31 December 2014, the carrying amount of inventories is HK$58,713,000 (net of allowance for inventories of Nil) (31 December 2013: carrying amount of HK$33,360,000, net of allowance for inventories of Nil).

Impairment of trade receivables

The policy for impairment assessment for receivables of the Group is based on the evaluation of collectability and ageing analysis of receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. As at 31 December 2014, the carrying amount of trade receivables is HK$547,675,000 (net of allowance for bad and doubtful debts of HK$55,231,000) (31 December 2013: carrying amount of HK$548,015,000, net of allowance for bad and doubtful debts of HK$36,872,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of shares and the raising of borrowings.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**935,007**	1,194,493
Financial liabilities		
Amortised cost	**105,820**	192,702

Financial risk management objectives and policies

The Group's major financial instruments include bills, trade and other receivables, pledged bank deposits, time deposit, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated with these financial instruments and the management policies remain unchanged from prior year.

Market risk

Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. The Group's sales are mainly denominated in RMB and the disbursements were also mainly settled in RMB, which is the functional currency of the relevant subsidiaries. The Group's exposure to foreign currency risk is arising mainly from the bank balances of the Group which are denominated in foreign currencies of the relevant group entities. Except for the bank balances, trade and other receivables and trade and other payables denominated in foreign currencies of the relevant group entities, the group entities did not have any other monetary assets or liabilities denominated in foreign currencies as at the end of the reporting period. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("**US$**")	**41**	31,097	**–**	–
Hong Kong dollars ("**HK$**")	**24,085**	44,150	**2,431**	3,440

Sensitivity analysis

The Group is mainly exposed to the currency risk on US$ and HK$ against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of RMB against the relevant currency and the numbers below indicate a decrease in profit. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	US$ impact[(i)]		HK$ impact[(ii)]	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Decrease in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(2)**	(1,321)	**(1,083)**	(2,035)

(i) This is mainly attributable to the exposure outstanding on US$ bank balances of the Group at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding HK$ bank balances of the Group at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other receivables, time deposits and bank borrowings (see notes 24, 25 and 27 for details of these other receivables, time deposits and bank borrowings respectively). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged bank deposits and bank borrowings (see notes 25 and 27 for details of these bank balances, pledged bank deposits and bank borrowings respectively). The directors of the Company monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including bank balances and borrowings) at the end of the reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and borrowings.

A 10 basis points (2013: 10 basis points) increase or decrease in interest rates on variable bank balances, and a 100 basis points (2013: 100 basis points) increase or decrease in interest rates on variable-rate borrowings represent managements' assessment of the reasonably possible changes in interest rates.

If interest rates on variable-rate bank balances had been 10 basis points (2013: 10 basis points) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2014	2013
	HK$'000	HK$'000
Increase in post-tax profit for the year	**103**	227

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rates on variable-rate bank balances had been 10 basis points (2013: 10 basis points) lower and all other variables were held constant.

If the interest rate on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax profit for the year.

	Year ended 31 December	
	2014	2013
	HK$'000	HK$'000
Decrease in post-tax profit for the year	**–**	(371)

The post-tax profit for the year would be increased by the same amount as mentioned above if the interest rate on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to meet their obligations in relation to the Group's principal financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers. Customer credit risk is managed by each business segment subject to the Group's established policy and review relating the customer credit risk regularly. The requirement for impairment is analysed at each reporting date on an individual basis. Additionally, a large number of receivables are assessed by aging for impairment collectively. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

There is concentration of credit risk on pledged bank deposits, time deposits and bank balances for the Group as at 31 December 2014 and 31 December 2013. As at 31 December 2014, balances with the four largest banks accounted for 90% (2013: 89%) of total pledged bank deposits, time deposits and bank balances of the Group. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group's credit risk on bills and trade receivables is concentrated in the PRC. The Group had five customers accounted for approximately 28% (2013: 25%) of all receivables owing at the end of the reporting period. However, the Group evaluates the concentration of risk with respect to trade receivables as low, as a large number of diversified customers.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purposes.

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand and less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 31.12.2014 HK$'000
2014						
Non-derivative financial liabilities						
Non-interest bearing	–	105,186	–	–	105,186	105,186
Fixed rate instruments	6.00%	–	653	–	653	634
		105,186	653	–	105,839	105,820
2013						
Non-derivative financial liabilities						
Non-interest bearing	–	121,301	–	–	121,301	121,301
Fixed rate instruments	6.29%	–	34,959	–	34,959	33,939
Variable rate instruments	6.33%	11,546	5,475	23,159	40,180	37,462
		132,847	40,434	23,159	196,440	192,702

At 31 December 2013, included in interest-bearing bank borrowings was a term loan in the amount of HK$10,568,000. The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time. In the opinion of the directors of the Company, such term loan would not be repayable on-demand and would be repaid by instalments in accordance with the scheduled repayment dates. For the purpose of the above maturity profile, the total amount was classified as "on demand".

Fair value

The fair value of financial assets and financial liabilities are determined at amortised cost in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximate to their fair values at the end of reporting period.

7. REVENUE AND SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the executive directors of the Company. The information reported to the chief operating decision maker for purposes of resource allocation and performance assessment focuses specifically on respective businesses of the Group. The Group's operating and reportable segments are as follows:

Maintenance services	–	Provision of road maintenance services
Sale of equipment	–	Manufacturing and sale of road maintenance equipment

Segment revenue and results

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
For the year ended 31 December 2014			
Segment revenue:			
Sales to external customers	335,738	54,696	390,434
Intersegment sales	8,549	4,982	13,531
Other revenue	4,986	–	4,986
	349,273	59,678	408,951
Reconciliation:			
Elimination of intersegment sales	(8,549)	(4,982)	(13,531)
Revenue	340,724	54,696	395,420
Allocated corporate expenses	(300,373)	(43,677)	(344,050)
Segment results	40,351	11,019	51,370
Reconciliation:			
Interest income			11,948
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value			24,596
Exchange losses			(6,409)
Finance costs			(2,553)
Unallocated corporate expenses			(6,638)
Share of profits and losses of joint ventures and associates			(6,799)
Profit before tax			65,515

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
For the year ended 31 December 2013			
Segment revenue:			
Sales to external customers	345,499	283,210	628,709
Intersegment sales	–	6,541	6,541
Other revenue	3,048	177	3,225
	348,547	289,928	638,475
Reconciliation:			
Elimination of intersegment sales	–	(6,541)	(6,541)
Revenue	348,547	283,387	631,934
Allocated corporate expenses	(278,040)	(114,182)	(392,222)
Segment results	70,507	169,205	239,712
Reconciliation:			
Interest income			6,450
Exchange gains			3,405
Finance costs			(6,865)
Unallocated corporate expenses			(26,252)
Share of profits and losses of joint ventures and associates			3,545
Profit before tax			219,995

Intersegment sales are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The accounting policies of the operating and reportable segments information are the same as the Group's accounting policies described in note 3. Segment results represents the profit earned by each segment without allocation of head office and corporate expenses, fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value, interest income, exchange gains and losses, share of profits and losses of joint ventures and associates and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
As at 31 December 2014			
Segment assets	**633,218**	**326,876**	**960,094**
Elimination of intersegment receivables			**(84,552)**
Investments in joint ventures			**34,282**
Other unallocated assets			**453,968**
Total assets			**1,363,792**
Segment liabilities	**177,799**	**33,222**	**211,021**
Elimination of intersegment payables			**(84,552)**
Other unallocated liabilities			**23,083**
Total liabilities			**149,552**
As at 31 December 2013			
Segment assets	498,383	364,681	863,064
Elimination of intersegment receivables			(84,552)
Investments in joint ventures			39,433
Investments in associates			9,283
Other unallocated assets			641,845
Total assets			1,469,073
Segment liabilities	178,898	51,955	230,853
Elimination of intersegment payables			(84,552)
Other unallocated liabilities			108,557
Total liabilities			254,858

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information (included in the measure of segment results and segment assets)

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
As at 31 December 2014			
Impairment losses in respect of trade and other receivables	16,266	1,127	17,393
Depreciation and amortisation	21,325	2,619	23,944
Capital expenditure (Note)	32,281	2,437	34,718
As at 31 December 2013			
Impairment losses in respect of trade and other receivables	8,490	2,071	10,561
Depreciation and amortisation	11,269	7,584	18,853
Capital expenditure (Note)	43,752	4,774	48,526

Note: Capital expenditure consists of additions to property, plant and equipment, land use rights, and other intangible assets, excluding assets from the acquisition of subsidiaries.

For the purposes of assessing segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged bank deposits, time deposits, cash and cash equivalents, interests in associates, interests in joint ventures, deferred tax assets and other unallocated head office and corporate assets as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than deferred tax liabilities, bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

During the year ended 31 December 2014, there was one customer accounted for 10% or more of the Group's revenue and its revenue amounted to HK$51,218,000. The sales to the above customer were derived from the provision of road maintenance services. During the year ended 31 December 2013, revenue from sale to one of the Group's joint ventures, accounted for 10% or more of the Group's revenue and its revenue amounted to HK$85,267,000. The sales to the above joint venture were derived from the sales of road maintenance equipment.

The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

8. OTHER INCOME

	2014 HK$'000	2013 HK$'000
Government grants (Note)	3,996	3,225
Interest income	11,948	6,450
Others	990	–
	16,934	9,675

Note: The government grants mainly represent unconditional subsidies from PRC local governments to encourage the operations of certain subsidiaries. The government grants are accounted for as immediate financial support with no future related costs expected to be incurred and are not related to any assets.

9. OTHER GAINS AND LOSSES

	2014 HK$'000	2013 HK$'000
Loss on disposal of property, plant and equipment	(1,069)	(409)
Impairment of trade receivables	(18,175)	(10,364)
Reversal of impairment/(impairment) of other receivables	782	(197)
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value	24,596	–
Net foreign exchange (losses) gains	(6,409)	3,405
	(275)	(7,565)

10. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on:		
— Bank borrowings wholly repayable within five years	2,553	6,865
Less: amounts capitalised	–	–
	2,553	6,865

11. PROFIT BEFORE TAXATION

	2014 HK$'000	2013 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 12)	5,812	5,957
Other staff retirement benefit scheme contributions	3,426	5,052
Other staff costs	62,452	66,114
Share-based payment expense for other staff	435	–
Total staff costs	72,125	77,123
Amortisation of prepaid lease payments	205	204
Amortisation of other intangible assets	60	106
Auditor's remuneration	1,380	1,280
Cost of inventories sold	25,544	87,185
Cost of services provided	202,883	200,406
Depreciation	23,679	18,543

Share-based payment expense of approximately HK$555,000 (2013: Nil) were recognised in profit or loss during the year ended 31 December 2014 in respect of share options and awards of the Company. Details of transactions are set out in note 29 and note 30.

12. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the nine (2013: ten) directors for the year ended 31 December 2014 were as follows:

	Year ended 31 December 2014									
	Sze Wai Pan HK$'000	Sze Wan Nga HK$000	Chan Kai King HK$'000	Zhang Yi Fu HK$'000	Yeung Chin Chiu HK$'000	Wang Lei HK$'000 (note 2)	Yeung Sum HK$'000	Tang Koon Yiu, Thomas HK$'000	Lau Ching Kwong HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	200	200	200	600
Salaries and other benefits	1,440	862	780	720	–	–	–	–	–	3,802
Performance related bonuses	564	386	130	142	–	–	–	–	–	1,222
Contributions to retirement benefit schemes	17	17	17	17	–	–	–	–	–	68
Share-based payment expense	–	5	53	53	–	–	3	3	3	120
Total emoluments	2,021	1,270	980	932	–	–	203	203	203	5,812

	Year ended 31 December 2013										
	Sze Wai Pan HK$'000	Sze Wan Nga HK$000	Chan Kai King HK$'000	Zhang Yi Fu HK$'000	Yeung Chin Chiu HK$'000	Chen Shirley Shiyou HK$'000 (note 1)	Wang Lei HK$'000 (note 2)	Yeung Sum HK$'000	Tang Koon Yiu, Thomas HK$'000	Lau Ching Kwong HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	100	100	100	300
Salaries and other benefits	1,430	791	715	661	–	–	–	–	–	–	3,597
Performance related bonuses	800	600	300	300	–	–	–	–	–	–	2,000
Contributions to retirement benefit schemes	15	15	15	15	–	–	–	–	–	–	60
Total emoluments	2,245	1,406	1,030	976	–	–	–	100	100	100	5,957

Notes:

(1) Ms. Chen Shirley Shiyou resigned as a non-executive director of the Company on 23 December 2013.

(2) Mr. Wang Lei was appointed as a non-executive director of the Company on 23 December 2013.

12. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals included four (2013: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one (2013: one) highest paid individuals during the year are as follows:

	2014 **HK$'000**	2013 HK$'000
Basic salaries and allowances	**762**	691
Performance related bonuses	**127**	300
Retirement benefits scheme contributions	**17**	15
Share-based payment expense	**24**	–
	930	1,006

Their emoluments are within the following band:

	Number of employees **2014**	2013
HK$ Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during both years.

13. TAXATION

The charge comprises:

	2014 HK$'000	2013 HK$'000
PRC Enterprise Income Tax ("**EIT**"):		
– Current tax	**6,465**	43,369
– Over provision in prior years	**(553)**	–
	5,912	43,369
Deferred tax charge (credit) (note 22)	**5,553**	(3,425)
	11,465	39,944

No provision for Hong Kong profits tax has been made for the years ended 31 December 2014 and 2013 as the Group did not generate any assessable profits arising in Hong Kong or had available tax losses brought forward from prior years to offset the assessable profits generated during both years.

Except as described below, provision for PRC Enterprise Income Tax is made based on the estimated taxable income for PRC taxation purposes at 25% pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Regulation.

英達熱再生有限公司 Freetech Road Recycling Corporation ("**Freetech Road Recycling**") was recognised as a High-Tech company in 2010 and 2014 respectively and the applicable tax rate is 15% from 1 January 2010 to 31 October 2017.

南京英達公路養護車製造有限公司 Nanjing Freetech Road Maintenance Vehicle Manufacturing Corporation ("**Freetech Manufacturing**") was recognised as a High-Tech company in 2009 and 2012 respectively and the applicable tax rate is 15% from 1 January 2009 to 29 June 2015.

Withholding tax of approximately HK$529,000 (2013: HK$2,256,000) has been provided for in the year ended 31 December 2014 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

13. TAXATION *(Continued)*

The taxation charge for the year can be reconciled to the profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	2014 HK$'000	2014 %	2013 HK$'000	2013 %
Profit before taxation	**65,515**		219,995	
Tax at the applicable income tax rate of 25% (2013: 25%) (note)	**16,379**	**25.0**	54,999	25.0
Tax effect of expenses not deductible for tax purposes	**3,009**	**4.6**	2,900	1.3
Tax effect of tax losses not recognised	**6,796**	**10.4**	1,279	0.6
Tax effect of income not taxable for tax purpose	**(7,780)**	**(11.9)**	(887)	(0.4)
Tax effect of share of losses (profits) of joint ventures and associates	**1,700**	**2.6**	(768)	(0.3)
Tax effect of deductible temporary differences not recognised	**2,937**	**4.5**	2,640	1.2
Utilisation of tax losses and deductible temporary differences previously not recognised	**–**	**–**	(44)	–
Income tax at concessionary rates	**(9,626)**	**(14.7)**	(21,197)	(9.6)
Over provision in prior years	**(553)**	**(0.8)**	–	–
Tax effect of additional deduction related to research and development costs and certain staff costs	**(1,926)**	**(2.9)**	(1,234)	(0.6)
Withholding tax on undistributed profits of PRC subsidiaries	**529**	**0.7**	2,256	1.0
Taxation charge and effective tax rate for the year	**11,465**	**17.5**	39,944	18.2

Note: The domestic income tax rate of 25% (2013: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

14. DIVIDENDS

	2014 HK$'000	2013 HK$'000
Dividends recognised as distribution:		
Special dividend (Note)	–	60,000
2013 final dividend of HK5.5 cents (2012: Nil) per ordinary share	59,345	–
2014 final dividend proposed of HK1.5 cents (2013: HK5.5 cents) per ordinary share	16,185	59,345

A final dividend of HK1.5 cents per ordinary share (2013: HK5.5 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Note: On 7 June 2013, the Company declared a special dividend of HK$60,000,000 to its then shareholders before the listing of the shares of the Company on the Hong Kong Stock Exchange.

15. EARNINGS PER SHARE

	2014 HK$'000	2013 HK$'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share — attributable to the owners of the Company	58,497	182,526
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,079,000,000	916,015,819
Effect of dilutive potential ordinary shares — share options	–	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,079,000,000	916,015,819

The calculation of the weighted average number of ordinary shares for the purpose of basic earnings per share has taken into account the assumption that the Capitalisation Issue has been effective on 1 January 2013 and also been retrospectively adjusted for the bonus element of the Special Capitalisation Issue (as defined in note 28).

The computation of diluted earnings per share for the year ended 31 December 2014 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price during the year. Accordingly, the diluted earnings per share was same as the basic earnings per share for the year ended 31 December 2014.

For the year ended 31 December 2013, diluted earnings per share were the same as basic earnings per share as there was no dilutive potential ordinary share outstanding.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2013	29,836	134,411	25,340	5,066	–	900	195,553
Additions	–	7,210	8,170	319	–	33,214	48,913
Disposal/write-off	(567)	(4,099)	(666)	(53)	–	–	(5,385)
Effect of foreign currency exchange differences	874	4,443	566	152	–	483	6,518
At 31 December 2013	30,143	141,965	33,410	5,484	–	34,597	245,599
Acquisition of subsidiaries (note 31)	–	78,408	3,011	133	873	–	82,425
Additions	–	10,715	10,331	2,656	–	10,622	34,324
Transfer	432	–	–	–	–	(432)	–
Disposal/write-off	(1,378)	–	(1,918)	(197)	–	–	(3,493)
Effect of foreign currency exchange differences	(307)	(1,779)	(316)	(54)	2	(342)	(2,796)
At 31 December 2014	28,890	229,309	44,518	8,022	875	44,445	356,059
DEPRECIATION							
At 1 January 2013	8,100	45,877	10,296	3,172	–	–	67,445
Provided for the year	1,340	13,473	3,242	488	–	–	18,543
Disposal/write-off	(129)	(2,704)	(599)	(40)	–	–	(3,472)
Effect of foreign currency exchange differences	258	1,589	277	98	–	–	2,222
At 31 December 2013	9,569	58,235	13,216	3,718	–	–	84,738
Provided for the year	1,310	15,184	6,347	791	47	–	23,679
Disposal/write-off	(444)	–	(1,726)	(167)	–	–	(2,337)
Effect of foreign currency exchange differences	(100)	(655)	(127)	(47)	–	–	(929)
At 31 December 2014	10,335	72,764	17,710	4,295	47	–	105,151
CARRYING VALUES							
At 31 December 2014	18,555	156,545	26,808	3,727	828	44,445	250,908
At 31 December 2013	20,574	83,730	20,194	1,766	–	34,597	160,861

The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years, which is the shorter of lease term of land and estimated useful lives of buildings
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	5 years

As at 31 December 2013, certain of the Group's property, plant and equipment were pledged, details of which are set out in note 34.

17. GOODWILL

	2014 HK$'000	2013 HK$'000
Cost and carrying amount		
At beginning of the year	**731**	731
Additional amounts recognised from business combinations (note 31)	**4,176**	–
At the end of the year	**4,907**	731

On 21 June 2012, the Group acquired a 2% equity interest in 內蒙古英達東方道路再生工程有限公司 Inner Mongolia Freetech Dongfang Road Recycling Engineering Co., Ltd. ("**Freetech Ordos**"), which was previously a 51% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$1,481,000 (equivalent to approximately RMB1,200,000), resulting in a goodwill of HK$731,000. The equity interests held by the Group in Freetech Ordos increased from 51% to 53% upon the completion of this acquisition.

On 25 August 2014, the Group acquired a 4% equity interest in 湖南英達通衢道路再生工程有限公司 Hunan Freetech Tongqu Road Recycling Engineering Co., Ltd. ("**Hunan Freetech Tongqu**"), which was previously a 55% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$2,125,000 (equivalent to approximately RMB1,680,000), resulting in a goodwill of HK$115,000 as disclosed in note 31. The equity interests held by the Group in Hunan Freetech Tongqu increased from 55% to 59% upon the completion of this acquisition.

On 27 November 2014, the Group acquired a 30% equity interest in 宿遷恒通道路再生工程有限公司 Suqian Hengtong Road Recycling Constructions Co., Ltd. ("**Suqian Hengtong**"), which was previously a 35% owned associate of the Group, from two independent third parties at an aggregate cash consideration of approximately HK$13,268,000 (equivalent to approximately RMB10,500,000), resulting in a goodwill of HK$2,863,000 as disclosed in note 31. The equity interests held by the Group in Suqian Hengtong increased from 35% to 65% upon the completion of this acquisition.

17. GOODWILL *(Continued)*

On 3 November 2014, the Group acquired a 40% equity interest in 新疆建達道路工程有限公司 Xinjiang Jianda Road Engineering Co., Ltd. ("**Xinjiang Jianda**"), which was previously a 49% owned associate of the Group, from an independent third party at a cash consideration of approximately HK$5,074,000 (equivalent to approximately RMB4,000,000), resulting in a goodwill of HK$1,198,000 as disclosed in note 31. The equity interests held by the Group in Xinjiang Jianda increased from 49% to 89% upon the completion of this acquisition.

	2014 HK$'000	2013 HK$'000
Freetech Ordos	**731**	731
Hunan Freetech Tongqu	**115**	–
Suqian Hengtong	**2,863**	–
Xinjiang Jianda	**1,198**	–
At the end of the year	**4,907**	731

For the purposes of impairment testing, the four subsidiaries are considered as four cash-generating units ("**CGU**") as they can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets.

During the year ended 31 December 2014, management of the Group determines that there is no impairment in relation to the goodwill arising on the acquisition of its CGUs.

The basis of the estimation of the recoverable amount of the above CGUs and the major underlying assumptions are summarised below:

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates are in the range of 13% to 15% (2013: 13% to 15%). The CGU's cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% (2013: 3%). The growth rate used is based on management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

18. PREPAID LEASE PAYMENTS

	2014 HK$'000	2013 HK$'000
Non-current	6,506	6,780
Current	205	207
	6,711	6,987

The amount represents prepayment for land use rights situated in the PRC for a period of 50 years.

As at 31 December 2013, certain of the Group's leasehold lands were pledged to secure general banking facilities granted to the Group, details of which are set out in note 34.

19. OTHER INTANGIBLE ASSETS

	Software HK$'000
COST	
At 1 January 2013	803
Additions	18
Effect of foreign currency exchange differences	25
At 31 December 2013	846
Additions	394
Effect of foreign currency exchange differences	(9)
At 31 December 2014	1,231
AMORTISATION	
At 1 January 2013	621
Charge for the year	106
Effect of foreign currency exchange differences	19
At 31 December 2013	746
Charge for the year	60
Effect of foreign currency exchange differences	(8)
At 31 December 2014	798
CARRYING VALUES	
At 31 December 2014	433
At 31 December 2013	100

19. OTHER INTANGIBLE ASSETS *(Continued)*

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following period:

Software	5 years

20. INTERESTS IN ASSOCIATES

	2014 HK$'000	2013 HK$'000
Cost of unlisted investments in associates	–	27,391
Share of post-acquisition profits and other comprehensive income, net of dividend received	–	(2,126)
Unrealised profit of sales to associates	–	(15,982)
	–	9,283

Particulars of the Group's associates at 31 December 2013 were as follows:

Name of associate	Country and date of establishment and place of operation	Fully paid registered capital	Attributable equity interest to the Group 2014	2013	Principal activity
Suqian Hengtong	PRC – Limited liability company 31 May 2012	Registered capital – RMB12,250,000	NA (Note 1)	35%	Provision of road maintenance services
Xinjiang Jianda	PRC – Limited liability company 20 December 2012	Registered capital – RMB9,800,000	NA (Note 2)	49%	Provision of road maintenance services

Notes:

1. During the year ended 31 December 2014, the Group acquired additional 30% equity interest in Suqian Hengtong and Suqian Hengtong became a subsidiary of the Group thereafter. A fair value gain of HK$7,093,000 from remeasurement of the 35% equity interest previously held in Suqian Hengtong to fair value was recognised in profit or loss upon the consolidation of Suqian Hengtong. Details of the acquisition are set out in note 31.

2. During the year ended 31 December 2014, the Group acquired additional 40% equity interest in Xinjiang Jianda and Xinjiang Jianda became a subsidiary of the Group thereafter. A fair value gain of HK$7,103,000 from remeasurement of the 49% equity interest previously held in Xinjiang Jianda to fair value was recognised in profit or loss upon the consolidation of Xinjiang Jianda. Details of the acquisition are set out in note 31.

20. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate at 31 December 2013, which represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs, is set out below. The associate is accounted for using the equity method in these consolidated financial statements.

Suqian Hengtong

	2013 HK$'000
Current assets	5,786
Non-current assets	35,432
Current liabilities	109
Non-current liabilities	–

	1 January 2014 to 26 November 2014 HK$'000	1 January 2013 to 31 December 2013 HK$'000
Revenue	**1,292**	10,194
Loss and total comprehensive expense for the period/year	**(5,475)**	(823)

20. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associate *(Continued)*

Suqian Hengtong *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 HK$'000
Net assets of Suqian Hengtong	41,109
Proportion of the Group's ownership interest in Suqian Hengtong	35%
Unrealised profit of sales to the associate	(8,294)
Carrying amount of the Group's interest in Suqian Hengtong	6,094

Aggregate information of the associate that is not individually material

	2014 HK$'000	2013 HK$'000
The Group's share of loss and total comprehensive expense for the period/year	(779)	(2,256)
Aggregate carrying amount of the Group's interest in the associate	–	3,189

21. INTERESTS IN JOINT VENTURES

	2014 HK$'000	2013 HK$'000
Cost of unlisted investments in joint ventures	86,640	102,031
Share of post-acquisition profits and other comprehensive income, net of dividend received	(7,871)	(565)
Unrealised profit of sales to joint ventures	(44,487)	(62,033)
	34,282	39,433

At 31 December 2014 and 2013, when the unrealised profits of sales to a joint venture exceed the Group's share of the net assets of the joint venture, a negative balance of the interests in that joint venture will result. Such negative balance of interests in a joint venture is not net off with other interests in joint venture and is reclassified and included under the line item trade and other payables of the consolidated statement of financial position.

21. INTERESTS IN JOINT VENTURES *(Continued)*

As at 31 December 2014 and 2013, the Group had interests in the following joint ventures:

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting rights held by the Group		Principal activity
			2014	2013	2014	2013	
Hunan Freetech Tongqu	PRC equity joint venture	PRC	NA (Note 1)	55% (Note 2)	NA	55%	Provision of road maintenance services
福達道路再生工程有限公司 Futech Road Recycling Engineering Limited ("**Futech Road**")	Hong Kong joint venture	Hong Kong	50%	50%	50%	50%	Investment holding
泉州福達道路再生工程技術有限公司 Quanzhou Futech Road Recycling Engineering Technology Co., Ltd. ("**Quanzhou Futech Road**")	PRC equity joint venture	PRC	50%	50%	50%	50%	Provision of road maintenance services
南京路捷道路養護工程有限公司 Nanjing Lujie Road Maintenance Engineering Co., Ltd. ("**Nanjing Lujie**")	PRC equity joint venture	PRC	45%	45%	45%	45%	Provision of road maintenance services
廣東穗通道路再生工程有限公司 Guangdong Suitong Road Recycling Engineering Co., Ltd. ("**Guangdong Suitong**")	PRC equity joint venture	PRC	51% (Note 3)	51%	51%	51%	Provision of road maintenance services
福州速達道路養護工程有限公司 Fuzhou Suda Road Maintenance Engineering Co., Ltd. ("**Fuzhou Suda**")	PRC equity joint venture	PRC	35%	35%	35%	35%	Provision of road maintenance services
連雲港路達道路再生工程有限公司 Lianyungang Luda Road Recycling Engineering Co., Ltd. ("**Lianyungang Luda**")	PRC equity joint venture	PRC	35%	35%	35%	35%	Provision of road maintenance services
財匯有限公司 Flourish Rich Limited	Hong Kong joint venture	Hong Kong	15%	15%	50%	50% (note 4)	Investment holding
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited ("**Nanjing Golden Rich**")	PRC equity joint venture	PRC	15%	15%	50%	50% (note 4)	Provision of leasing services

21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

1. During the year ended 31 December 2014, the Group acquired additional 4% equity interest in Hunan Freetech Tongqu. A revised Articles of Association was approved by the board of directors of Hunan Freetech Tongqu, and the Group obtained the control in Hunan Freetech Tongqu, and Hunan Freetech Tongqu became a subsidiary of the Group thereafter. A fair value gain of HK$10,400,000 from remeasurement of the 55% equity interest previously held in Hunan Freetech Tongqu to fair value was recognised in profit or loss upon the consolidation of Hunan Freetech Tongqu. Details of the acquisition are set out in note 31.

2. At 31 December 2013, the Group held 55% of the registered capital of Hunan Freetech Tongqu and held 55% of the voting power in general meeting as of the year ended 31 December 2013. However, under the joint venture agreement, Hunan Freetech Tongqu was jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Hunan Freetech Tongqu required the unanimous consent of the Group and the other party sharing the control. Therefore, Hunan Freetech Tongqu was classified as a joint venture of the Group as of the year ended 31 December 2013.

3. The Group holds 51% of the registered capital of Guangdong Suitong and holds 51% of the voting power in general meeting. However, under the joint venture agreement, Guangdong Suitong is jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Guangdong Suitong require the unanimous consent of the Group and the other party sharing the control. Therefore, Guangdong Suitong is classified as a joint venture of the Group as of the year ended 31 December 2014 and 2013.

4. The voting power is determined with reference to the number of directors representing the Group in the respective board of directors of the joint venture. The joint venture partners have an equal number of seats on the board of directors.

Summarised financial information of material joint ventures

Summarised financial information in respect of each of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

21. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint ventures *(Continued)*

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Hunan Freetech Tongqu

	2013 HK$'000
Current assets	23,196
Non-current assets	35,106
Current liabilities	16,472
Non-current liabilities	–
The above amounts of assets and liabilities include the following:	
Cash and cash equivalent	1,823
Current financial liabilities (excluding trade and other payables and provisions)	8,343
Non-current financial liabilities (excluding trade and other payables and provisions)	–

	1 January 2014 to 24 August 2014 HK$'000	1 January 2013 to 31 December 2013 HK$'000
Revenue	**582**	9,136
Loss and total comprehensive expense for the period/year	**(5,553)**	(4,164)
Dividends received from Hunan Freetech Tongqu during the period/year	**–**	–

21. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint ventures *(Continued)*

Hunan Freetech Tongqu *(Continued)*

The above loss for the period/year included the following:

	1 January 2014 to 24 August 2014 HK$'000	1 January 2013 to 31 December 2013 HK$'000
Depreciation and amortisation	**2,675**	3,983
Interest income	**8**	3
Interest expense	**–**	–
Income tax expense	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hunan Freetech Tongqu recognised in the consolidated financial statements:

	2013 HK$'000
Net assets of Hunan Freetech Tongqu	41,830
Proportion of the Group's ownership interest in Hunan Freetech Tongqu	55%
Unrealised profit of sales to the joint venture	(11,593)
Carrying amount of the Group's interest in Hunan Freetech Tongqu	11,188

21. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint ventures *(Continued)*

Nanjing Lujie

	2014 HK$'000	2013 HK$'000
Current assets	**86,156**	24,298
Non-current assets	**48,539**	52,845
Current liabilities	**62,488**	26,755
Non-current liabilities	**–**	–
The above amounts of assets and liabilities included the following:		
Cash and cash equivalent	**11,392**	5,159
Current financial liabilities (excluding trade and other payables and provisions)	**14,656**	21,769
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–
Revenue	**112,922**	22,713
Profit and total comprehensive income for the year	**3,240**	725
Dividends received from Nanjing Lujie during the year	**–**	–

21. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint ventures *(Continued)*

Nanjing Lujie *(Continued)*

The above profit for the year included the following:

	2014 HK$'000	2013 HK$'000
Depreciation and amortisation	6,569	5,653
Interest income	50	77
Interest expense	206	–
Income tax expense	669	217

Reconciliation of the above summarised financial information to the carrying amount of the interest in Nanjing Lujie recognised in the consolidated financial statements:

	2014 HK$'000	2013 HK$'000
Net assets of Nanjing Lujie	72,207	50,388
Proportion of the Group's ownership interest in Nanjing Lujie	45%	45%
Unrealised profit of sales to the joint venture	(8,761)	(9,943)
Carrying amount of the Group's interest in Nanjing Lujie	23,991	12,991

Aggregate information of joint ventures that are not individually material

	2014 HK$'000	2013 HK$'000
The Group's share of loss and total comprehensive expense	(12,069)	(4,303)
Aggregate carrying amount of the Group's interest in the joint ventures	10,291	15,254

22. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Withholding tax HK$'000	Unrealised profits from transactions with associates and joint ventures HK$'000	Total HK$'000
At 1 January 2013	(17,476)	9,277	(8,199)
(Charge)/credit to profit or loss	(2,256)	5,681	3,425
Reversal to profit or loss on payment of withholding tax	3,295	–	3,295
Effect of foreign currency exchange differences	(518)	362	(156)
At 31 December 2013 and 1 January 2014	(16,955)	15,320	(1,635)
Charge to profit or loss	(529)	(5,024)	(5,553)
Reversal to profit or loss on payment of withholding tax	3,458	–	3,458
Effect of foreign currency exchange differences	138	(252)	(114)
At 31 December 2014	(13,888)	10,044	(3,844)

The following is the analysis of the deferred tax balance for financial reporting purposes.

	2014 HK$'000	2013 HK$'000
Deferred tax assets	**10,044**	15,320
Deferred tax liabilities	**(13,888)**	(16,955)
	(3,844)	(1,635)

At 31 December 2014, the Group has not recognised deductible temporary difference on provision for trade and other receivables of approximately HK$56,656,000 (2013: HK$39,100,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

22. DEFERRED TAXATION *(Continued)*

At 31 December 2014, the Group has tax losses arising in Hong Kong of approximately HK$25,813,000 (2013: HK$2,168,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK$37,536,000 (2013: HK$4,704,000) that will expire at various dates up to and including 2019 (2013: 2018) for offsetting against future taxable profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$258 million (2013: HK$242 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

23. INVENTORIES

	2014 **HK$'000**	2013 HK$'000
Raw materials	**12,036**	12,649
Work-in-progress	**44,527**	19,257
Finished goods	**2,150**	1,454
	58,713	33,360

24. BILLS, TRADE AND OTHER RECEIVABLES

	2014 HK$'000	2013 HK$'000
Bills receivables	887	768
Trade receivables	602,906	584,887
Less: Allowance for bad and doubtful debts	(55,231)	(36,872)
	547,675	548,015
Other receivables	33,967	33,166
Less: Allowance for bad and doubtful debts	(1,425)	(2,228)
	32,542	30,938
Prepayments and deposits	17,718	8,337
Tax recoverable	703	168
	599,525	588,226

The following is an aged analysis of bills receivables at the end of the reporting period:

	2014 HK$'000	2013 HK$'000
0 to 180 days	887	768

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group's trade customers are principally government agencies. The credit period is determined on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Except for a trade receivable of approximately HK$10,230,000 (2013: HK$18,162,000) as at 31 December 2014 which provided a payment guarantee letter to the Group, the Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

24. BILLS, TRADE AND OTHER RECEIVABLES *(Continued)*

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2014 HK$'000	2013 HK$'000
Within 3 months	**150,869**	219,675
3 to 12 months	**166,000**	194,645
1 to 2 years	**159,978**	96,760
Over 2 years	**70,828**	36,935
	547,675	548,015

At 31 December 2014, included in the trade receivables are amounts due from the Group's joint ventures and associates of HK$67,328,000 (2013: HK$150,360,000) and Nil (2013: HK$4,226,000) respectively, which are repayable on credit terms similar to those offered to the major customers of the Group, details of which are set out in note 36.

At 31 December 2013, included in the Group's other receivables was an amount due from a joint venture of HK$8,645,000, which was unsecured, bore interest at a rate of 5% per annum and was repayable within one year. Such balance was fully settled in 2014. Details of which are set out in note 36.

At 31 December 2014, included in the Group's other receivables are amounts due from joint ventures of HK$10,247,000 (2013: HK$292,000), which are unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 36.

At 31 December 2014, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$170,788,000 (2013: HK$79,249,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2014 HK$'000	2013 HK$'000
Less than 1 month past due	**16,866**	16,581
1 to 3 months past due	**38,468**	11,479
More than 3 months but less than 12 months past due	**98,743**	45,509
Over 1 year	**16,711**	5,680
	170,788	79,249

24. BILLS, TRADE AND OTHER RECEIVABLES *(Continued)*

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, the directors of the Company are of the opinion that no provision for impairment 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.

Movement in the allowance for doubtful debts — trade receivables

	2014 HK$'000	2013 HK$'000
1 January	**36,872**	30,460
Allowance for bad and doubtful debts	**18,175**	10,364
Amount written off as uncollectible	**–**	(4,936)
Effect of foreign currency differences	**184**	984
31 December	**55,231**	36,872

Movement in the allowance for doubtful debts — other receivables

	2014 HK$'000	2013 HK$'000
1 January	**2,228**	2,040
Allowance for bad and doubtful debts	**–**	197
Reversal of bad and doubtful debts	**(782)**	–
Effect of foreign currency differences	**(21)**	(9)
31 December	**1,425**	2,228

In determining the recoverability of the trade and other receivables, the Group reassesses the credit quality of the trade and other receivables from the date credit was initially granted up to the reporting date. Based on the historical experience of the Group, the directors believe that no further allowance is required.

25. TIME DEPOSITS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Time deposits at 31 December 2014 and 2013 represented bank deposits placed in banks in Hong Kong with maturity form 31 days to 182 days. The interest rate was fixed at 3.45% to 4.85% (2013: 2.6% to 4.75%) per annum in 2014.

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2014 carried an interest rate of 0.35% (2013: 0.35%) per annum.

Bank balances and cash comprise cash at bank that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank balances at 31 December 2014 carry interest at market rates which ranged from 0.01% to 0.35% (2013: 0.01% to 0.35%) per annum.

At 31 December 2014, certain time deposit, bank balances and cash and pledged bank deposits of approximately HK$334,061,000 (2013: HK$225,034,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

26. TRADE AND OTHER PAYABLES

	2014 HK$'000	2013 HK$'000
Trade payables	**77,396**	79,163
Other tax payables	**21,041**	26,907
Advance from customers, other payables and accrued charges	**29,784**	43,603
	128,221	149,673

At 31 December 2014, included in the Group's trade payables are amounts due to joint ventures of approximately HK$7,255,000 which is repayable within 90 days, which represents credit terms similar to those offered by joint ventures to their major customers. There is no such balance at 31 December 2013. Details of which are set out in note 36.

At 31 December 2013, included in the Group's trade payables is an amount due to an associate of approximately HK$2,086,000 which is repayable within 90 days, which represents credit terms similar to those offered by the associate to its major customers. There is no such balance at 31 December 2014. Details of which are set out in note 36.

At 31 December 2014, included in the Group's advance from customers, other payables and accrued charges is an amount of HK$12,760,000 (2013: HK$12,451,000), which represents the excess balance of the unrealized profits of sales to joint ventures over the share of their net assets.

26. TRADE AND OTHER PAYABLES *(Continued)*

The Group normally receives credit terms of 30 days to 180 days (2013: 30 days to 180 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2014 HK$'000	2013 HK$'000
Within 3 months	**43,087**	34,715
3 to 12 months	**22,338**	18,070
1 to 2 years	**2,425**	5,297
Over 2 years	**9,546**	21,081
	77,396	79,163

27. BANK BORROWINGS

	2014 HK$'000	2013 HK$'000
Secured	**–**	27,857
Unsecured	**634**	43,544
	634	71,401
Carrying amounts repayable:		
Within one year or on demand	**634**	49,629
More than two years but not more than five years	**–**	21,772
	634	71,401
Less: Amounts due within one year shown under current liabilities	**(634)**	(49,629)
Amounts shown under non-current liabilities	**–**	21,772

The bank borrowings at 31 December 2014 are denominated in RMB and carry fixed interest rates at 6% (2013: fixed and variable interest rates ranging from 6% to 6.9%) per annum, respectively.

At 31 December 2013, included in the Group's bank loans repayable within one year or on demand is a secured bank loan of HK$10,568,000 with an on-demand clause. There is no such balance at 31 December 2014.

Details of assets pledged by the Group at the end of the reporting period are set out in note 34.

28. SHARE CAPITAL

	Note	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each			
Authorised:			
At date of incorporation		3,900,000	390
Increase in authorised share capital on 7 June 2013	a	9,996,100,000	999,610
At 31 December 2013, 1 January 2014 and 31 December 2014		10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2013		1,781,636	178
Issuance of new shares for capitalisation of the amount due to the then immediate holding company	b	98,218,364	9,822
Capitalisation issue of shares	a	680,000,000	68,000
Issuance of new shares in connection with the listing of the Company's shares on 26 June 2013	c	260,000,000	26,000
Issuance of new shares in connection with the over-allotment option	d	39,000,000	3,900
At 31 December 2013 and 31 December 2014		1,079,000,000	107,900

Notes:

a. Pursuant to resolutions passed on 7 June 2013, the following changes were approved:

(i) the authorised share capital of the Company was increased from HK$390,000 to HK$1,000,000,000 by the creation of additional 9,996,100,000 shares of HK$0.10 each; and

(ii) an aggregate of 680,000,000 ordinary shares of HK$0.10 each were allotted and issued to the shareholders by capitalising an amount of HK$68,000,000 standing to the credit of the share premium account of the Company (the "**Capitalisation Issue**").

b. On 7 June 2013, the Company capitalised the amount due to the then immediate holding company of approximately HK$153,183,000 by the issuance of 98,218,364 ordinary shares of the Company of HK$0.10 each (the "**Special Capitalisation Issue**").

c. In connection with the Company's global offering and listing of its shares on the Hong Kong Stock Exchange, 260,000,000 ordinary shares of the Company of HK$0.10 each were issued at a price of HK$2.43 per share for a total cash consideration, before expenses, of approximately HK$631,800,000. Dealings in the shares of the Company on the Hong Kong Stock Exchange commenced on 26 June 2013.

d. On 23 July 2013, in connection with the exercise of the over-allotment option in full by the sole global coordinator of the Company's global offering, 39,000,000 ordinary shares of the Company of HK$0.10 each were issued at a price of HK$2.43 per share for a total cash consideration, before expenses, of approximately HK$94,770,000.

29. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "**Scheme**") for the purpose of motivating eligible persons to optimise their future performance and efficiency to the Group and/or rewarding them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, enabling the Group to attract and retain individuals with experience and ability and/or rewarding them for their past contributions. Eligible persons of the Scheme include (i) the Company's directors, including independent non-executive directors, (ii) other employees of the Group, (iii) direct and indirect shareholders of the Group, (iv) suppliers of goods or services to the Group, (v) customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of the Group, (vi) persons or entities that provide design, research, development or other support or any advisory, consultancy, professional or other services to the Group; and (vii) associates of the persons identified in (i), (ii) and (iii) above. The Scheme became effective on 7 June 2013 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible person in the Scheme within any twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within twenty eight days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company and ends on a date which is not later than ten years from the date of offer of share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors of the Company, but may not be less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheet on the offer date; and (iii) the average closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

All holders of options granted under the Scheme may only exercise their options in the following manner:

Maximum percentage of options exercisable	Vesting period
50% of the options	Upon the first anniversary of the date of grant
Additional 50% of the options	Upon the third anniversary of the date of grant

29. SHARE OPTION SCHEMES *(Continued)*

No share option was granted during the year ended 31 December 2013. 4,970,000 share options are granted during the year ended 31 December 2014. The share options outstanding under the Scheme during the year ended 31 December 2014 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2014	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2014
Directors								
Sze Wan Nga	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	100,000	–	–	100,000
Sze Wan Nga	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	100,000	–	–	100,000
Chan Kai King	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	100,000	–	–	100,000
Chan Kai King	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	100,000	–	–	100,000
Zhang Yi Fu	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	100,000	–	–	100,000
Zhang Yi Fu	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	100,000	–	–	100,000
Yeung Sum	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	50,000	–	–	50,000
Yeung Sum	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	50,000	–	–	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	50,000	–	–	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	50,000	–	–	50,000
Lau Ching Kwong	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	50,000	–	–	50,000
Lau Ching Kwong	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	50,000	–	–	50,000
Employees								
Employees	16.10.2014	16.10.2015–15.10.2017	HK$2.50	–	2,035,000	–	–	2,035,000
Employees	16.10.2014	16.10.2017–15.10.2019	HK$2.75	–	2,035,000	–	–	2,035,000
				–	4,970,000	–	–	4,970,000
Exercisable at the end of the year								–

At 31 December 2014, the number of shares in respect of which options under the Scheme had been granted and remained outstanding was 4,970,000 (2013: Nil), representing 0.46% (2013: Nil) of the shares of the Company in issue at that date.

The closing price of the Company's shares immediately before 16 October 2014, the date of grant of the options, was HK$1.70 and the total estimated fair value of the share options granted on that date was HK$991,000.

29. SHARE OPTION SCHEMES *(Continued)*

The fair value of the share options was determined at the date of grant using the Binomial option pricing model (the "**Binomial model**") with the following inputs and based on the respective vesting period of the share options:

	16.10.2014
Stock price as at grant date	HK$1.70
Exercise price	HK$2.5/2.75
Expected volatility	35.88%/38.31%
Contractual life of options	3/5 years
Risk free rate	0.538%/1.069%
Expected dividend yield	2.941%
Sub-optimal exercise factor for directors/employees	3.34/2.86

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expected volatility was determined by using the historical volatility of the comparable companies' share prices over the previous three/five years. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended 31 December 2014, the Group recognised total expenses of HK$125,000 (2013: Nil) in relation to share options granted by the Company.

30. SHARE AWARD SCHEMES

On 7 May 2014, the Company adopted the share award scheme (the "**Share Award Scheme**") under which shares of the Company may award selected employees (including executive directors) of the Group (the "**Selected Employees**") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for a term of 10 years commencing on the adoption date.

The aggregate number of the awarded shares (the "**Awarded Shares**") permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 3% of the issued share capital of the Company from time to time. The maximum number of the Awarded Shares which may be awarded to a selected employee shall not exceed 1% of the issued share capital of the Company from time to time.

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no consideration. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

During the year ended 31 December 2014, based on the Company's instruction, the trustee acquired 10,625,000 ordinary shares of HK$0.10 each in the Company for the Share Award Scheme through purchases in the open market at a total cost, including related transaction costs of approximately HK$19,724,000.

30. SHARE AWARD SCHEMES *(Continued)*

Summary of particulars of the shares awarded or vested under the Share Award Scheme during the year is as follows:

Date of grant	Number of awarded shares granted	Fair value HK$'000	Vesting period	Number of awarded shares: Vested as at 31 December 2014	Forfeited as at 31 December 2014	Outstanding (held by the trustee for the grantees) as at 31 December 2014
16 October 2014	1,489,000	2,063	1 year	–	–	1,489,000
Total	1,489,000	2,063		–	–	1,489,000

The closing price of the Company's shares immediately before 16 October 2014, the date of grant of the awarded shares, was HK$1.70 and the average fair value per share was HK$1.39, which was calculated using the share price at the date of grant at a discount of lack of marketability.

The Group recognised a share award expense of HK$430,000 during the year.

At the date of approval of these financial statements, 1,489,000 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 9,136,000 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

31. ACQUISITION OF SUBSIDIARIES

Year ended 31 December 2014:

In July 2014, the Group entered into a share purchase agreement with its joint venture partner, 岳陽市通衢興路公司 (Yueyang Tongqu Road Maintenance Corporation), to acquire a 4% equity interest in Hunan Freetech Tongqu, which was previously a 55% owned joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB1,680,000 (equivalent to approximately of HK$2,125,000) paid at the acquisition date. Together with the 55% equity interest held before the acquisition, the Group's interest in Hunan Freetech Tongqu increased to 59% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Hunan Freetech Tongqu, and the Group obtained the control in Hunan Freetech Tongqu, and Hunan Freetech Tongqu became a subsidiary of the Group. The acquisition was completed on 25 August 2014. Hunan Freetech Tongqu is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Hunan, PRC.

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2014: *(Continued)*

In October 2014, the Group entered into a share purchase agreement with its associate partner, 新疆交建宏升公路養護工程有限公司 (Xinjiang Jiaojian Hongshen Road Maintenance Co., Ltd.), to acquire a 40% equity interest in Xinjiang Jianda, which was previously a 49% owned associate of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB4,000,000 (equivalent to approximately of HK$5,074,000) paid at the acquisition date. In addition, the Group is committed to contribute a further RMB4,000,000 (equivalent to approximately of HK$5,074,000) on or before 31 December 2015. Together with the 49% equity interest held before the acquisition, the Group's interest in Xinjiang Jianda increased to 89% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Xinjiang Jianda, and the Group obtained the control in Xinjiang Jianda, and Xinjiang Jianda became a subsidiary of the Group. The acquisition was completed on 3 November 2014. Xinjiang Jianda is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Xinjiang, PRC.

In November 2014, the Group entered into two share purchase agreements with its associate partners, 宿遷市交通投資有限公司 (Suqian Transportation Investment Co., Ltd.) and 城投（中國）資產管理有限公司 (City Investment (China) management Co., Ltd.), to acquire 16% and 14% equity interests in Suqian Hengtong respectively, which was previously a 35% owned associate of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB5,600,000 and RMB4,900,000 (equivalent to approximately of HK$7,069,000 and HK$6,199,000) paid at the acquisition date respectively. Together with the 35% equity interest held before the acquisition, the Group's interest in Suqian Hengtong increased to 65% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Suqian Hengtong, and the Group obtained the control in Suqian Hengtong, and Suqian Hengtong became a subsidiary of the Group. The acquisition was completed on 27 November 2014. Suqian Hengtong is principally engaged in the provision of road maintenance services. The acquisition was made as part of the Group's strategy to penetrate into the market of road maintenance services in Suqian, PRC.

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Consideration transferred:

	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong HK$'000	Total HK$'000
Cash	2,125	5,074	13,268	20,467
Fair value of equity interest previously held as investment in a joint venture/an associate	19,393	10,412	12,159	41,964
	21,518	15,486	25,427	62,431

The fair value of the Group's previously held interests is determined by reference to the proportionate share of the fair value of the acquirees' net identifiable assets.

Assets and liabilities recognised at the date of acquisition are as follows:

	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong HK$'000	Total HK$'000
Property, plant and equipment	31,835	19,483	31,107	82,425
Inventories	133	–	98	231
Amount due from related parties	–	–	2,597	2,597
Trade and other receivables	7,017	–	250	7,267
Bank balances and cash	3,243	256	986	4,485
Trade and other payables	(3,350)	(7)	(6)	(3,363)
Amount due to related parties	(2,187)	(3,679)	(318)	(6,184)
Income tax liabilities	(415)	–	–	(415)
	36,276	16,053	34,714	87,043

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

The fair value of trade and other receivables and amount due from related parties at the date of acquisition amounted to HK$9,864,000, which approximates the gross contractual amount. There are no contractual cash flows not expected to be collected.

Goodwill arising on acquisition:

	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong HK$'000	Total HK$'000
Consideration transferred	21,518	15,486	25,427	62,431
Plus: non-controlling interests	14,873	1,765	12,150	28,788
Less: recognised amount of identifiable net assets acquired	36,276	16,053	34,714	87,043
Goodwill arising on acquisition	115	1,198	2,863	4,176

The non-controlling interests in Hunan Freetech Tongqu (41%), Xinjiang Jianda (11%) and Suqian Hengtong (35%) recognised at the acquisition date, respectively, were measured by reference to the proportionate share of the recognised amounts of net assets of Hunan Freetech Tongqu, Xinjiang Jianda and Suqian Hengtong and amounted to HK$14,873,000, HK$1,765,000 and HK$12,150,000, respectively.

Goodwill arose in the acquisition of Hunan Freetech Tongqu, Xinjiang Jianda and Suqian Hengtong because the costs of the combinations included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquirees. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Net cash outflow on the above acquisitions:

	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong HK$'000	Total HK$'000
Cash consideration paid	2,125	5,074	13,268	20,467
Less: cash and cash equivalents acquired	3,243	256	986	4,485
	(1,118)	4,818	12,282	15,982

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Impact of the acquisitions on the results of the Group:

Included in the profit for the year ended 31 December 2014 was a loss of HK$1,540,000 attributable to Hunan Freetech Tongqu, a profit of HK$110,000 attributable to Xinjiang Jianda and a loss of HK$468,000 attributable to Suqian Hengtong. Revenue for the year ended 31 December 2014 included HK$441,000 generated from Hunan Freetech Tongqu, HK$710,000 generated from Xinjiang Jianda and Nil from Suqian Hengtong, respectively.

Had the above acquisitions been completed on 1 January 2014, total group revenue for the year would have been HK$392 million, and profit for the year would have been HK$44 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

Year ended 31 December 2013:

There was no acquisition of subsidiaries during the year.

32. OPERATING LEASES

The Group as lessee

	2014 **HK$'000**	2013 HK$'000
Minimum lease payments paid for the year under operating leases for premises	**5,379**	5,625

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 **HK$'000**	2013 HK$'000
Within one year	**1,995**	3,224
In the second to fifth years inclusive	**924**	1,732
	2,919	4,956

Operating lease payments represent rentals payable by the Group for certain of its office properties and warehouse. Leases are negotiated for terms ranging from one to three years.

33. CAPITAL COMMITMENTS

	2014 HK$'000	2013 HK$'000
Contracted for but not provided for in respect of the acquisition of property, plant and equipment	**30,555**	44,719
Contracted for but not provided for in respect of the acquisition of land use rights	**38,028**	–
Contracted for but not provided for capital contributions payable to a joint venture	**9,100**	7,838
Contracted for but not provided for capital contributions payable to an associate	**–**	6,275
Authorised but not provided for in respect of the acquisition of property, plant and equipment	**10,815**	11,766

34. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group.

	2014 HK$'000	2013 HK$'000
Bank deposits	**6,880**	75
Property, plant and equipment	**–**	45,158
Prepaid lease payments	**–**	6,987
	6,880	52,220

35. RETIREMENT BENEFIT SCHEMES

As stipulated by the relevant rules and regulations in the PRC, the Group contributes to the retirement benefit scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement benefit scheme to fund the benefits.

The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustee. The Group basically contributes 5% of the relevant payroll costs to the scheme.

The total expense recognised in profit or loss of HK$3,494,000 (2013: HK$5,112,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2014, contributions of HK$526,000 (31 December 2013: HK$429,000) due in respect of the year ended 31 December 2014 (2013) had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

36. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following material transactions with its related companies:

Name of related company	Relationship	Nature of transaction	2014 HK$'000	2013 HK$'000
Lianyungang Luda	A joint venture	Sales of goods	–	26,075
Guangdong Suitong	A joint venture	Sales of goods	–	16,680
Fuzhou Suda	A joint venture	Sales of goods	–	20,733
Nanjing Lujie	A joint venture	Sales of goods	–	8,260
Nanjing Golden Rich	A joint venture	Sales of goods	–	85,267
Suqian Hengtong (note)	An associate	Receiving of road maintenance services	–	4,423
Nanjing Lujie	A joint venture	Purchase of materials	**17,464**	–

Note: Suqian Hengtong became a subsidiary of the Group during the year ended 31 December 2014.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of the remuneration of directors and other members of key management during the year are set out in note 12.

(c) Details of the amounts due from related parties are as follows:

Name of related parties	Relationship	2014 HK$'000	2013 HK$'000
Nanjing Golden Rich	A joint venture	**34,553**	102,968
Guangdong Suitong	A joint venture	**31,690**	32,018
Nanjing Lujie	A joint venture	**10,472**	11,478
Lianyungang Luda	A joint venture	**380**	3,842
Fuzhou Suda	A joint venture	**380**	3,201
Futech Road	A joint venture	**100**	71
Hunan Freetech Tongqu (note)	A joint venture	**–**	5,719
Xinjiang Jianda (note)	An associate	**–**	4,226
		77,575	163,523

Note: Hunan Freetech Tongqu and Xinjiang Jianda became subsidiaries of the Group during the year ended 31 December 2014.

Details of the amounts due to related parties are as follows:

Name of related parties	Relationship	2014 HK$'000	2013 HK$'000
Nanjing Lujie	A joint venture	**5,392**	–
Nanjing Golden Rich	A joint venture	**710**	–
Fuzhou Suda	A joint venture	**621**	–
Quanzhou Futech Road	A joint venture	**532**	–
Suqian Hengtong (note)	An associate	**–**	2,086
		7,255	2,086

Note: Suqian Hengtong became a subsidiary of the Group during the year ended 31 December 2014.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2014 and 2013 are as follows:

Name of subsidiary	Date, place/ country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company 2014	2013	Principal activities
Freetech Road Recycling Engineering Limited (Note a)	British Virgin Islands – limited liability company 23 November 2009	Share – US$2 (2013: US$2)	**100%**	100%	Investment holding
BS (BVI) Limited (Note a)	British Virgin Islands – limited liability company 30 March 2011	Share – US$1 (2013: US$1)	**100%**	100%	Investment holding
Freetech Road Maintenance Engineering Co., Limited	Hong Kong – limited liability company 17 August 2001	Share – HK$3 (2013: HK$3)	**100%**	100%	Investment holding and sale of road maintenance equipment
BS (Int'l) Automobile Technology Co., Limited	Hong Kong – limited liability company 18 August 2004	Registered capital – HK$1,000,000 (2013: HK$1,000,000)	**100%**	100%	Investment holding and sale of road maintenance equipment
Freetech Road Recycling (as defined in note 13)	PRC – Wholly-foreign -owned enterprise 8 September 2000	Registered capital – US$135,060,000 (2013: US$135,060,000)	**100%**	100%	Provision of road maintenance services
南京奔騰養護機械有限公司 Nanjing BS Maintenance Machinery Company Limited	PRC – Wholly-foreign -owned enterprise 22 July 2009	Registered capital – US$5,050,000 (2013: US$5,050,000)	**100%**	100%	Sale of road maintenance equipment
Freetech Manufacturing (as defined in note 13)	PRC – Sino-foreign joint venture 21 June 2005	Registered capital – US$9,700,000 (2013: US$9,700,000)	**100%**	100%	Manufacturing and sale of road maintenance equipment

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Date, place/ country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company 2014	2013	Principal activities
Freetech Ordos (as defined in note 17)	PRC – Limited liability company 17 June 2011	Registered capital – RMB30,000,000 (2013: RMB30,000,000)	53%	53%	Provision of road maintenance services
新疆英達熱再生有限公司 Xinjiang Freetech Road Recycling Co., Ltd.	PRC – Limited liability company 8 June 2012	Registered capital – RMB10,000,000 (2013: RMB10,000,000)	100%	100%	Provision of road maintenance services
延邊英達道路工程有限公司 Yanbian Freetech Road Engineering Co., Ltd.	PRC – Limited liability company 31 May 2012	Registered capital – RMB100,000 (2013: RMB100,000)	100%	100%	Provision of road maintenance services
Hunan Freetech Tongqu (as defined in note 17)	PRC – Limited liability company 11 April 2011	Registered capital – RMB35,000,000 (2013: RMB35,000,000)	59% (note b)	NA	Provision of road maintenance services
Suqian Hengtong (as defined in note 17)	PRC – Limited liability company 31 May 2012	Registered capital – RMB35,000,000 (2013: RMB35,000,000)	65% (note b)	NA	Provision of road maintenance services
Xinjiang Jianda (as defined in note 17)	PRC – Limited liability company 20 December 2012	Registered capital – RMB20,000,000 (2013: RMB20,000,000)	89% (note b)	NA	Provision of road maintenance services
Freetech Smart Road Recycling Engineering Investment Ltd	Hong Kong – Limited liability company 11 August 2014	Registered capital – HK$50,000	51%	NA	Investment holding

Notes:

(a) Directly held by the Company.

(b) These entities are previously joint venture or associate of the Group. Additional equity interests are acquired during the year and control is obtained, details of which are set out in note 31.

None of the subsidiaries had issues any debt securities at the end of the reporting period.

The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

At the end of the reporting period, the Company has another subsidiary that is not material to the Group. The subsidiary operates in the PRC. The principal activities of this subsidiary are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2014	2013
Not yet commenced operation	PRC	1	–

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non- controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/14	31/12/13	31/12/14 HK$'000	31/12/13 HK$'000	31/12/14 HK$'000	31/12/13 HK$'000
Freetech Ordos	PRC	47%	47%	(3,665)	(2,475)	16,440	20,307
Hunan Freetech Tongqu	PRC	41%	NA	(631)	–	14,295	–
Suqian Hengtong	PRC	35%	NA	(164)	–	12,054	–
Individually immaterial subsidiaries with non-controlling interests						1,804	–
						44,593	20,307

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Freetech Ordos

	2014 HK$'000	2013 HK$'000
Current assets	**29,527**	36,283
Non-current assets	**17,400**	20,389
Current liabilities	**11,954**	13,474
Equity attributable to owners of the Company	**18,532**	22,891
Non-controlling interests	**16,441**	20,307
Revenue	**12,020**	–
Expenses	**19,817**	5,265
Loss attributable to owners of the Company	**(4,132)**	(2,790)
Loss attributable to the non-controlling interests	**(3,665)**	(2,475)
Loss for the year	**(7,797)**	(5,265)
Other comprehensive (expense) income attributable to owners of the Company	**(227)**	697
Other comprehensive (expense) income attributable to the non-controlling interests	**(202)**	618
Other comprehensive (expense) income for the year	**(429)**	1,315
Total comprehensive expense attributable to owners of the Company	**(4,359)**	(2,093)
Total comprehensive expense attributable to the non-controlling interests	**(3,867)**	(1,857)
Total comprehensive expense for the year	**(8,226)**	(3,950)
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(1,433)**	(23,444)
Net cash inflow from investing activities	**–**	15
Net cash inflow (outflow) from financing activities	**–**	–
Net cash outflow	**(1,433)**	(23,429)

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Hunan Freetech Tongqu

	2014 HK$'000
Current assets	4,942
Non-current assets	30,868
Current liabilities	1,000
Equity attributable to owners of the Company	20,515
Non-controlling interests	14,295

	25 August 2014 to 31 December 2014 HK$'000
Revenue	441
Expenses	(1,981)
Loss attributable to owners of the Company	(909)
Loss attributable to the non-controlling interests	(631)
Loss for the period	(1,540)
Other comprehensive income attributable to owners of the Company	76
Other comprehensive income attributable to the non-controlling interests	53
Other comprehensive income for the period	129
Total comprehensive expense attributable to owners of the Company	(833)
Total comprehensive expense attributable to the non-controlling interests	(578)
Total comprehensive expense for the period	(1,411)
Dividends paid to non-controlling interests	–
Net cash outflow from operating activities	(1,805)
Net cash inflow from investing activities	5
Net cash inflow (outflow) from financing activities	–
Net cash outflow	(1,800)

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Suqian Hengtong

	2014 HK$'000
Current assets	3,846
Non-current assets	30,887
Current liabilities	341
Equity attributable to owners of the Company	22,338
Non-controlling interests	12,054

	27 November 2014 to 31 December 2014 HK$'000
Revenue	–
Expenses	468
Loss attributable to owners of the Company	(304)
Loss attributable to the non-controlling interests	(164)
Loss for the period	(468)
Other comprehensive income attributable to owners of the Company	127
Other comprehensive income attributable to the non-controlling interests	68
Other comprehensive income for the period	195
Total comprehensive expense attributable to owners of the Company	(177)
Total comprehensive expense attributable to the non-controlling interests	(96)
Total comprehensive expense for the period	(273)
Dividends paid to non-controlling interests	–
Net cash inflow from operating activities	11
Net cash inflow (outflow) from investing activities	–
Net cash inflow (outflow) from financing activities	–
Net cash inflow	11

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2014 HK$'000	2013 HK$'000
Assets		
Property, plant and equipment	1,466	1,998
Investments in subsidiaries	1,253,923	1,253,923
Prepayments, deposits and other receivables	4,003	3,872
Dividend receivable	178,352	153,000
Amounts due from subsidiaries	388,055	375,639
Amounts due from a joint venture	43,625	71
Time deposits	210,209	353,577
Bank balances and cash	18,098	16,497
	2,097,731	2,158,577
Liabilities		
Other payables and accruals	1,752	2,615
	1,752	2,615
NET ASSETS	2,095,979	2,155,962
Capital and reserves		
Share capital	107,900	107,900
Reserves	1,988,079	2,048,062
Total equity	2,095,979	2,155,962

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000 (note)	Shares held under the share award scheme HK$'000	Share-based compensation reserve HK$'000	Retained earnings HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000
At 1 January 2013	–	1,253,901	–	–	(15,468)	–	1,238,433
Profit for the year	–	–	–	–	137,166	–	137,166
Special dividends declared (note 14)	–	–	–	–	(60,000)	–	(60,000)
Issuance of new shares for capitalisation of the amount due to the immediate holding company (note 28)	143,361	–	–	–	–	–	143,361
Capitalisation issue of shares (note 28)	(68,000)	–	–	–	–	–	(68,000)
Issuance of new shares in connection with the listing of the Company's shares (note 28)	696,670	–	–	–	–	–	696,670
Share issue expenses	(39,568)	–	–	–	–	–	(39,568)
At 31 December 2013	732,463	1,253,901	–	–	61,698	–	2,048,062
Profit for the year	–	–	–	–	18,845	–	18,845
Other comprehensive expense for the year	–	–	–	–	–	(314)	(314)
Total comprehensive income (expense) for the year	–	–	–	–	18,845	(314)	18,531
Share held under the share award scheme	–	–	(19,724)	–	–	–	(19,724)
Equity-settled share award scheme (note 30)	–	–	–	430	–	–	430
Equity-settled share option arrangements (note 29)	–	–	–	125	–	–	125
Dividend recognised as distribution	–	–	–	–	(59,345)	–	(59,345)
At 31 December 2014	732,463	1,253,901	(19,724)	555	21,198	(314)	1,988,079

Notes: The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation described under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013, over the nominal value of the Company's shares issued in exchange therefor.

FINANCIAL SUMMARY

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**390,434**	628,709	486,003	281,279	233,145
Profit before taxation	**65,515**	219,995	193,003	83,065	37,539
Taxation	**11,465**	39,944	42,630	20,915	10,725
Profit for the year	**54,050**	180,051	150,373	62,150	26,814

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,363,792**	1,469,073	636,438	441,521	230,852
Total liabilities	**149,552**	254,858	393,689	372,211	168,804
Net assets	**1,214,240**	1,214,215	242,749	69,310	62,048

Freetech Road Recycling Technology (Holdings) Limited
英達公路再生科技(集團)有限公司