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)
(於開曼群島註册成立的有限公司)
Stock Code 股份代號: 6888

ANNUAL REPORT 年報 2013

FREETECH ROAD RECYCLING TECHNOLOGY (HOLDINGS) LIMITED

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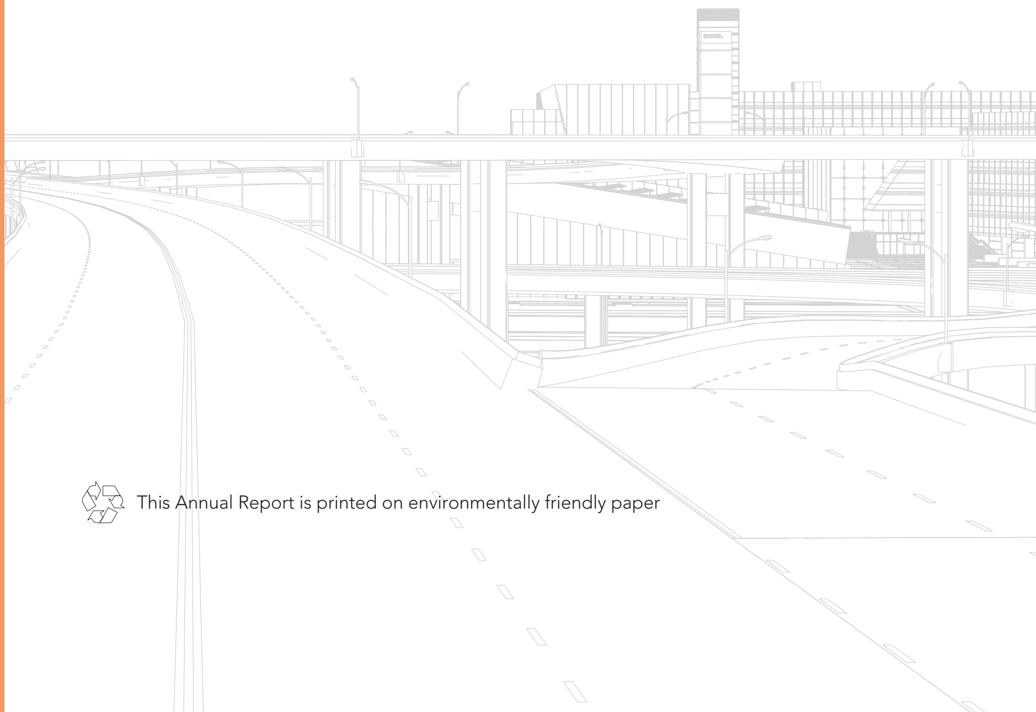

This Annual Report is printed on environmentally friendly paper

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

Auditors
Ernst & Young
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		
	2013	2012	Increase/
	HK$'000	HK$'000	(decrease)
Revenue	**628,709**	486,003	29.4%
Gross profit	**341,118**	263,039	29.7%
Profit attributable to owners of the parent before extraordinary items[1]	**198,773**	146,936	35.3%
Profit attributable to owners of the parent	**182,526**	146,593	24.5%
Earnings per share (Basic) (HK cents)	**19.93**	19.73	1.0%
Proposed final dividend per share (HK cents)	**5.5**	–	N/A

Financial Position

	31 December		
	2013	2012	Increase/
	HK$'000	HK$'000	(decrease)
Cash and cash equivalents	**614,697**	130,862	369.7%
Total debts	**71,401**	85,733	(16.7)%
Equity attributable to owners of the parent	**1,193,908**	220,585	441.3%

Key Financial Ratios

Gross profit margin	**54.3%**	54.1%	0.4%
Net profit margin before extraordinary items[2]	**31.6%**	30.2%	4.6%
Net profit margin	**28.6%**	30.9%	(7.4)%
Return on assets	**12.3%**	23.6%	(47.9)%
Current ratio	**5.7**	2.1	171.4%

1 profit attributable to owners of the parent excluding fair value gain from remeasurement of equity interest previously held in an acquired subsidiary and listing expenses

2 profit for the year (excluding fair value gain from remeasurement of equity interest previously held in an acquired subsidiary and listing expenses)/revenue X 100%

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present the first annual results of Freetech Road Recycling Technology (Holdings) Limited (the "**Group**") since our successful listing on the Main Board (the "**Listing**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 26 June 2013.

Performance

Listing on the Stock Exchange laid an important milestone for the Group in 2013. Due to the uniqueness of our self-innovative core technology that provides a strong foundation for our Group to maintain consistently high profit growth, our Group garnered the "IFAPC Outstanding Listed Company Award 2013". As a result of the fast development of Mainland China's road construction, the road maintenance market maintains an upward trend. In addition, the People's Republic of China (the "**PRC**") government advocates ecological civilization and energy conservation, and develops a cyclical economic model, providing tremendous market opportunities for the Group. In 2013, the total income and net income of the Group was HK$628.7 million and HK$180.1 million, respectively, representing an increase of 29.4 % and 19.7 % as against 2012.

In the equipment research and development sector, we have developed a new and unique sub-series under our existing modular series equipment named Hipav 5, which integrates the functions of a Hot-in-Place recycling unit and a traditional asphalt paver. Hipav 5, being equipped with highly flexible, reliable and efficient features, is capable of working in secondary or narrower asphalt roads and will help us to further explore new markets. In addition, we invented a new paving process — thermal bonding overlay, which has a significant quality advantage over the traditional method. We believe it will be another new advantage of our Group in 2014. In the maintenance technology development sector, we successfully expanded the application of our "Hot-in-Place" technology from "road maintenance" category into the "road expansion and reconstruction" category which will widen the market size. We will continue to invest more resources in research and development, to further widen our Group's market size.

Outlook

With the implementation of various favorable environmental protection guidance policies by the PRC government and the upcoming inspection activities of highways in Mainland China, demand for services and equipment in the road recycling technology industry is growing. The Group intends to build on its competitive advantages and grasps policy advantages to strengthen its market position and increase market share. The Group also pursues development through self-initiated innovation and advocates achieving a cyclical economic model in the asphalt pavement maintenance ("**APM**") industry, with an emphasis on rational use of resources and ecological environmental protection.

As an "integrated solution provider" enterprise (an enterprise which integrates APM technology research and development, APM equipment manufacturing and APM service contracting), the Group started to set up the "Road Doctor Training Institute" to develop new professional personnel in the APM industry, to provide a research and development interflow platform, and to promote the application of environmental-friendly and low-carbon road maintenance technologies. Therefore, our Group further expands from "3 in 1" integrated service provider to "4 in 1" road doctor. With the clear positioning of "4 in 1" road doctor strategies, we believe that we will provide customers with comprehensive, complete and high-quality services in the road maintenance industry to achieve a cyclical economic model, make contributions to society and create larger returns for shareholders.

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 expresss my gratitude to all of our business partners, customers and shareholders for their solid support.

Mr. Sze Wai Pan
Chairman
25 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS


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Freetech
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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2013, while continuing to maintain stable economic growth, the PRC government actively promoted the green economy and environmental protection industry. Environmental protection has become a core priority for Mainland China's future economic reforms and long-term development.

Following the PRC's 12th Five-Year Plan which ranked energy consumption and environmental protection first among the seven Strategic Emerging Industries in 2013, the PRC government has issued a series of guidelines and policies on environmental restoration.

We believe that: 1. the PRC government will further step up its policy in support of environmental restoration; and 2. Mainland China will continue to invest in highway construction and there will be an increasing need to replace old roads. As a result of the above, the demand for using recycling technology in the asphalt pavement industry will continue to grow, providing the Group with enormous market and development opportunities.

During the year under review, the Group continued its market expansion strategy through establishing new joint ventures and associates with local APM service providers and persons to provide APM services. In 2013, the Group established three (2012: four) new joint ventures and associates, and as at 31 December 2013, had in total nine (as at 31 December 2012: six) joint ventures and associates engage in provision of APM services. In the fourth quarter of 2013, the Group also formed a new market expansion strategy and appointed some local experienced APM service providers as our franchisees to promote our "Hot-in-Place" recycling technology in particular cities. According to the franchise agreement, every franchisee has a minimum yearly production volume target. As at 31 December 2013, we had appointed six local APM service providers as our franchisees. As of the latest practicable date, we have appointed additional four local APM service providers as our franchisees and we have in total ten franchisees.

In 2013, the road recycling technology industry maintained a satisfactory development trend and the existing businesses of the Group recorded year-on-year growth. The Group's operating revenue was approximately HK$628.7 million, representing an increase of approximately 29.4% as against 2012. Total profit attributable to owners of the parent and total profit attributable to owners of the parent before extraordinary items were approximately HK$182.5 million and HK$198.8 million, respectively, representing an increase of approximately 24.5% and 35.3%, respectively, as against 2012. The Group remains a leading and fast-growing service provider using "Hot-in-Place" recycling technology in the asphalt pavement maintenance industry in Mainland China.

APM Services

During the year under review, we remained a leading and fast-growing service provider in the PRC market using "Hot-in-Place" recycling technology in the provision of APM services. In the municipal road market, we are the key player performing APM services. In addition, we have set up a new sales office in Xinjiang Autonomous Region and generate new revenue from our city excavation rapid backfilling restoration process (城市道路開挖快速回填恢復施工工藝). The city excavation rapid backfilling restoration process uses recycled materials from the excavated road or recycled construction materials to refill the road base. Compared with the traditional excavation process which uses new sand and aggregates as filling materials and often requires lengthy road closures, this process is more environmentally friendly, lowers the cost of raw materials used and lessens the length of time for road closures and traffic diversions.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, Inner Mongolia Freetech Dongfang Road Recycling Engineering Co., Ltd* (內蒙古英達東方道路再生工程有限公司) ("Freetech Ordos"), a subsidiary of the Company, and Ordos Dongfang Road & Bridge Group Co., Ltd* (鄂爾多斯市東方路橋集團股份有限公司) entered into a contract, pursuant to which Freetech Ordos agreed to provide APM services by using "Hot-in-Place" recycling technology on a road expansion and reconstruction project at Dongkang expressway* (東康線快速路), Ordos, in the Inner Mongolia Autonomous Region of the PRC. The contract widens the application of "Hot-in-Place" technology from road maintenance projects into a new area of road expansion and reconstruction projects. The Company believes that this breakthrough could potentially lead to more business opportunities for the Group in the future.

As a result of the above, our APM services segment recorded revenue of approximately HK$345.5 million, representing an increase of 19.8% as against 2012.

APM Equipment

During the year under review, we maintained our position as the leading APM equipment providers in the PRC market through establishing three new joint ventures in Guangdong Province, Fujian Province and Jiangsu Province with local service providers or investors and selling four sets of modular series products to four joint ventures. In addition, due to the anticipated demand of modular series products from our franchisee, we have established a joint venture with a third party investor to become involved in the leasing business. We have sold three sets of modular series products to this joint venture. During the year, our APM equipment segment generated revenue of HK$283.2 million, representing an increase of 43.3% as against 2012.

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

In addition, we continue to invest significant resources in our research and development efforts. As at 31 December 2013, we had registered 87 patents (31 December 2012: 79), of which 7 were invention patents (31 December 2012: 7), 70 were utility model patents (31 December 2012: 64) and 10 were design patents (31 December 2012: 8), and we had 18 patent pending applications (31 December 2012: 17), of which 12 were invention patents (31 December 2012: 13), 4 were utility model patents (31 December 2012: 4) and 2 were design patents (31 December 2012: nil).

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

New Product Series

As disclosed in the Company's prospectus dated 14 June 2013, during the year, we continued to further strengthen our research and development capabilities, and focus our efforts on overcoming certain technological limitations in the APM service industry. Recently, in the equipment research and development sector, we have developed a new and unique piece of equipment named HiPav 5, which integrates the functions of a "Hot-in-Place" recycling unit and a traditional asphalt paver. HiPav 5 incorporates 5 patented technologies and provides greater flexibility, reliability and efficiency. It will enable us to further explore new markets, including secondary or narrow asphalt roads where traditional recycling trains cannot gain access. The success of HiPav 5's technology represented a significant breakthrough in the worldwide APM industry. We believe that this equipment will provide a favourable return to the Group in the near future.

In the maintenance technology research sector, we have successfully developed our own rejuvenating agents so that they can best meet the needs of specific roads in order to optimize the performance of the recycled materials. We also invested in a multi-purposed road surveying vehicle. This will enable us to collect, analyse and generate all road quality indexes in a more accurate and much faster manner. In addition, we successfully expanded the application of "Hot-in-Place" technology from road maintenance projects into a new area of road expansion and reconstruction projects. The Company believes that this breakthrough could potentially lead to more business opportunities for the Group in the future. Also, we have successfully developed a new pavement method — thermal bonding overlay, this method has a significant quality advantage when compared with traditional method. We believe this is our Group's another new advantage in 2014.

Other matters

We have also recently undergone a stringent mid-year inspection conducted by the experts of Jiangsu Science and Technology Bureau (江蘇省科技廳) in connection with funding from the Jiangsu Province Science and Technology Achievement Project Fund (江蘇省科技成果轉換項目基金) granted to us in October 2012.

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

With the introduction of certain favorable policies by the PRC government to encourage the use of recycling technology in the APM market, we anticipate an increase in sales of our APM equipment to joint ventures and franchisees, and an increase in demand for our own services. In February 2013 we commenced the construction of a new plant to increase our APM equipment production capacity. Construction progress was slightly behind our schedule and we expect that the new production facility will become operational by the second quarter of 2014 upon partial completion. The new facility is expected to increase our production output capacity by more than double when construction is complete (due to be at the end of 2014).

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

The Twelfth Five-Year Plan for Transport (交通運輸"十二五"發展規劃) issued by the Ministry of Transport of the PRC (the "**Ministry of Transport**") in 2011 actively promotes recycling APM technologies to reduce emissions from and the environmental impact of providing road maintenance services. The Ministry of Transport released Guidance on Promoting Road Pavement Material Recycling (關於加快推進公路路面材料迴圈利用工作的指導意見) in 2012 which stipulates that the average rate of recycling of damaged pavement materials in the PRC should reach at least 50% by the end of 2015 and at least 90% by the end of 2020. At the end of the Twelfth Five-Year Plan ("十二五"發展規劃), the Ministry of Transport will conduct road inspections on highways in the second half of 2015 to check the quality and condition of the road maintenance work and the appropriateness of the usage of funds. These policies have provided tremendous market opportunities for the Group.

As a leading service provider of "Hot-in-Place" recycling technology in the APM industry, the Group intends to build on its competitive advantages to benefit from the current favorable policies. The Group intends to strengthen its market position from "3 in 1" integrated solution provider, i.e. integrating APM technology research and development, APM equipment manufacturing and APM service contracting, extends to "4 in 1", by setting up Road Recycling Training Institute (公路醫生學院) to develop new professional personnel of APM industry and provide a research and development interflow platform. The Group has appointed more than 30 top industry expert professors as full time or part time professors at the Road Recycling Training Institute. The Group aims to continuously strengthen its market position and increase 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 salesmen in different cities; (ii) increasing market penetration, particularly in cities where the use of "Hot-in-Place" recycling technology is currently relatively limited; (iii) establishing new joint ventures; (iv) appointing more local APM service providers as our franchisees; and (v) further strengthening our research and development capabilities and increasing our equipment production and service capacities.

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.

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 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Revenue:

a. APM Services

	Year ended 31 December		
	2013	2012	Increase/
	HK$'000	HK$'000	(decrease)
Revenue	**345,499**	288,399	19.8%
Gross profit	**145,093**	127,338	13.9%
Gross profit margin	**42.0%**	44.2%	
APM area serviced (square metres)	**3,057,000**	2,760,000	10.8%

Revenue and gross profit for this segment both grew compared to 2012. Revenue increased by 19.8%, primarily because the use of recycling technology is encouraged by recent policies issued by the PRC government. In addition, increase in revenue was also due to: (i) increase in the total APM area we serviced; (ii) increase in our average selling price of using "Hot-in-place" technology; and (iii) new revenue generated from our city excavation rapid backfilling restoration process, which has a higher average selling price than "Hot-in-Place" technology.

During the year under review, our Group continued to maintain a high gross profit margin in this segment.

b. APM Equipment

	Year ended 31 December				
	2013		2012		Increase/
	HK$'000	**units/ sets**	HK$'000	units/sets	(decrease)
Revenue					
Standard series	**91,410**	**39**	59,141	34	54.6%
Modular series	**186,903**	**8**	133,761	8	39.7%
Repair and maintenance	**4,897**	**N/A**	4,702	N/A	4.2%
Total	**283,210**		197,604		43.3%

	2013		2012		Increase/
	HK$'000	**Margin**	HK$'000	Margin	(decrease)
Gross profit					
Standard series	**52,648**	**57.6%**	34,929	59.1%	50.7%
Modular series	**140,624**	**75.2%**	97,975	73.2%	43.5%
Repair and maintenance	**2,753**	**56.2%**	2,797	59.5%	(1.6)%
Total	**196,025**	**69.2%**	135,701	68.7%	44.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue for the APM equipment segment for the year increased by 43.3% as compared to 2012. This increase was primarily due to strong demand of our more expensive standard series products and our business strategy of establishing joint ventures, more expensive and different combination of modular series products we sold. Thus, revenue generated from sales of standard series and modular series products during the year increased by 54.6% and 39.7% respectively, as against to 2012.

Gross profit margin improved from 68.7% in 2012 to 69.2% in 2013, primarily due to increases in sales of higher margin products, i.e. modular series products.

2. Selling and Distribution Expenses

Selling and distribution expenses for the year increased by 28.0% as against 2012, primarily due to the penetration rate of recycling technology on road maintenance is still very low in Mainland China, more APM services demonstration works were conducted to promote our technology and to cater for foreseeable huge demand of road maintenance service before the road inspection to be conducted by the Ministry of Transport in the second half of 2015.

3. Administrative Expenses

Administrative expenses increased by approximately HK$24.0 million, or approximately 53.7%, from HK$44.7 million in 2012 to HK$68.7 million in 2013, primarily due to increases in listing expenses from approximately HK$9.1 million in 2012 to approximately HK$16.2 million in 2013, representing an increase of approximately 78.0%.

4. Other Expenses

Other expenses increased significantly by HK$21.7 million, or approximately 150.7%, from approximately HK$14.4 million in 2012 to approximately HK$36.1 million in 2013, primarily as a result of more research and development costs incurred for the development of certain new APM products and technology.

5. Finance Costs

Finance costs increased by approximately HK$2.9 million, or approximately 72.5%, from HK$4.0 million in 2012 to HK$6.9 million in 2013, primarily due to the Group's average bank loan level during the year is higher than 2012. Part of the Group's bank loan was settled by the proceeds from the Company's Initial Public Offering ("IPO") in second half of 2013.

6. Share of Profits and Losses of Joint Ventures and Associates

The Group's share of profits from joint ventures was approximately HK$3.2 million in 2013, decreased by approximately HK$0.4 million, or approximately 11.1%, as compared to 2012.

The Group's share of losses from associates was approximately HK$426,000 in 2012. In 2013, the Group's share of profits from associates was approximately HK$331,000.

We believe that the contribution from these joint ventures and associates was not significant and are primarily due to the early stage nature of the joint ventures and associates businesses.

7. Income Tax Expenses

Income tax expenses decreased by approximately HK$2.7 million, or approximately 6.3%, from approximately HK$42.6 million in 2012 to approximately HK$39.9 million 2013, primarily as a result of decrease in deferred tax charged on withholding taxes on dividends distributed by those subsidiaries established in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Profit

Profit attributable to owners of the parent increased by approximately HK$35.9 million, or approximately 24.5%, from approximately HK$146.6 million in 2012 to approximately HK$182.5 million in 2013, primarily due to the net effect of increased revenue over higher costs such as selling and distribution expenses, administrative expenses and other expenses. Excluding extraordinary items, profit attributable to owners of the parent increased by approximately HK$51.9 million, or approximately 35.3%, from approximately HK$146.9 million in 2012 to approximately HK$198.8 million in 2013.

9. Financial Position

As at 31 December 2013, total equity of the Group amounted to approximately HK$1,214.2 million (2012: HK$242.7 million). The increase was mainly due to (i) net profit for the year of 2013, (ii) increase in cash and cash equivalents due to net proceeds received from the Company's IPO in June 2013, (iii) increase in trade and bills receivables due to increase in revenue generated from the fourth quarter in 2013 when compared with the corresponding period in 2012 and (iv) decrease in amount due to the immediate holding company after capitalisation of the balance prior to the Company's listing.

The Group's net current assets as at 31 December 2013 amounted to approximately HK$1,020.4 million (2012: HK$242.7 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2013 was 5.7 (2012: 2.1). The increases in both the Group's net current assets and current ratio were mainly due to increase in cash and bank balances due to net proceeds received from the Company's IPO in June 2013 and increase in trade and bills receivables due to increase in revenue generated from the fourth quarter in 2013 when compared with the corresponding period in 2012.

10. Liquidity and Financial Resources and Capital Structure

As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately HK$614.7 million (31 December 2012: HK$130.9 million). The increase was primarily due to the net cash proceeds of HK$687.0 million raised from the Company's IPO. As at 31 December 2013, the bank borrowings of the Group amounted to HK$71.4 million (31 December 2012: HK$85.7 million). As at 31 December 2013, the Group was in a net cash position due to net cash proceeds received from the Company's IPO (31 December 2012: gearing ratio, which is calculated by the Group's net debts divided by equity attributable to owners of the parent plus net debts was 51.7%).

Due to the restrictions on cash flow at the local government level in China has slowed down receivables collection, the completed APM area serviced in the fourth quarter of 2013 was approximately 20% higher than the corresponding period in 2012 and the modular series products sold in fourth quarter of 2013, as a result the trade receivables balance increased accordingly from HK$268.2 million as of 31 December 2012 to HK$548.8 million as of 31 December 2013. As at latest practicable date, third party customers had subsequently settled trade receivables amounting to HK$51.2 million (equivalent to approximately RMB39.9 million) and joint ventures and associates had subsequently settled trade receivables amounting to HK$69.2 million (equivalent to approximately RMB54.1 million).

Though the Group did not have any collateral over the receivables, the management considered that there is no recoverability problem as to its receivables as the remaining amounts are due from local PRC government. In order to minimise 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 widening its customer base to healthy liquidity local PRC government.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the listing of the shares of the Company on 26 June 2013 on Main Board of the Stock Exchange, the Group's liquidity position has strengthened 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 adopt 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 2013, the Group had total debt of HK$71.4 million (2012: HK$85.7 million), which comprised:

— secured interest-bearing bank borrowings of HK$27.9 million (2012: HK$73.3 million); and

— unsecured interest-bearing bank borrowings of HK$43.5 million (2012: HK$12.4 million).

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 (2012: HK$39.5 million);

(ii) mortgages over the Group's leasehold land with an aggregate carrying amount of approximately HK$7.0 million (2012: HK$4.3 million); and

(iii) mortgages over the Group's receivables with an aggregate carrying amount of nil (2012: HK$47.8 million).

12. Use of Proceeds Raised from Initial Public Offering ("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 2013 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

		Net Proceeds	
	Available	**Utilised**	**Unutilised**
	HK$ million	HK$ million	HK$ million
Investment in research and development activities	137.4	26.0	111.4
Establishing joint ventures and expanding APM service teams	137.4	20.6	116.8
Manufacturing APM equipment and expanding our APM service teams	103.1	–	103.1
Acquisitions of other APM service providers	103.0	–	103.0
Constructing new production facility	68.7	20.4	48.3
Establishing sales offices in new markets and marketing expenses	68.7	4.9	63.8
General corporate purposes and working capital requirements	68.7	34.6	34.1
	687.0	106.5	580.5

MANAGEMENT DISCUSSION AND ANALYSIS

The unutilised net proceeds pending their usage were held by us in short-term deposits with licensed banks and authorised financial institutions in Hong Kong.

13. Material Acquisitions and Disposals

Save as disclosed in the Company's prospectus dated 14 June 2013, 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 2013 are set out in note 37 to the financial statements. As at 31 December 2013, 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 business of the Group is principally conducted in the PRC and most of the transactions are denominated in RMB, except for certain bank deposits which are denominated in United States dollars and Hong Kong dollars. 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 2013, the Group had a total of 558 full time employees (as at 31 December 2012: 506). 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 48, 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 87 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 40, 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 60, 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 46, 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 50, 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 37, 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 40, 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 66, 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 71, joined in August 2012 as an independent non-executive director of the Company. He is also a member of audit committee and 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 (全國註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 54, 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 51, 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 37, 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 is an associated member of 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 2013.

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. For the period after it's listing date up to 31 December 2013, 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 (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 Wai Pan ("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 the 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 and 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 between the date of listing and 31 December 2013.

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.

CORPORATE GOVERNANCE REPORT

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	
Ms. Chen Shirley Shiyou	(resigned on 23 December 2013)
Mr. Wang Lei	(appointed on 23 December 2013)

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 the code 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.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

For the period after the shares of the Company were listed on the Stock Exchange on 26 June 2013 and up to 31 December 2013 (the "Period"), 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 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 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.

CORPORATE GOVERNANCE REPORT

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 (appointed on 23 December 2013)	N/A	N/A
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.

CORPORATE GOVERNANCE REPORT

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)*	

As the shares of the Company were listed on the Stock Exchange on 26 June 2013, no Remuneration Committee meeting was held between the Company's listing date and 31 December 2013. From 2014 onwards, the Remuneration Committee will conduct meeting at least once per year.

Details of directors' remuneration are set out in note 9 to the financial statements. Details of five highest paid employees are set out in note 10 of the financial statements. In addition, the remuneration of the two (2012: three) senior management fell within the band of less than HK$1,000,000 and one (2012: nil) 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.

CORPORATE GOVERNANCE REPORT

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)*	

One meeting was held during the Period to resolve the appointment of new 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 Period. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2013 and for the year ended 31 December 2013, 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, Ernst & Young be re-appointed as the Company's external auditors for 2014.

CORPORATE GOVERNANCE REPORT

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		4/4		1/1	
Ms. Sze Wan Nga		4/4			
Mr. Zhang Yifu		4/4			
Mr. Chan Kai King		4/4			
Non-executive Directors:					
Mr. Yeung Chin Chiu		4/4			
Ms. Chen Shirley Shiyou	(resigned on 23 December 2013)	3/3			
Mr. Wang Lei	(appointed on 23 December 2013)	1/1			
Independent Non-executive Directors:					
Ms. Yeung Sum		4/4			2/2
Mr. Tang Koon Yiu Thomas		4/4		1/1	2/2
Mr. Lau Ching Kwong		4/4		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.

CORPORATE GOVERNANCE REPORT

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, Ernst & Young charged the Group HK$1,280,000 for the provision of audit services, and other certified public accountant firms charged HK$334,000 for the provision of audit services to the Company's subsidiaries located in Hong Kong and China. Also, Ernst & Young charged the Group HK$300,000 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 requisition(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.

CORPORATE GOVERNANCE REPORT

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 2013.

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 19 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 2013 is set out in note 5 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 2013 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 38 to 111.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2013.

The directors have recommended the payment of a final dividend of HK5.5 cents per share for the year ended 31 December 2013. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

4. SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past four financial years, as extracted from the published audited financial statements and prospectus of the Company, is set out on page 112. 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 and of the Company during the year are set out in note 15 to the financial statements.

6. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2013 are set out in the note 29 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 31 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.

REPORT OF THE DIRECTORS

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 from the date of listing up to 31 December 2013.

10. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

11. DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$2,048.1 million (2012: HK$1,238.4 million), of which approximately HK$59.3 million has been 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 the 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 37.5% of the total sales for the year and sales to the largest customer included therein amounted to 13.6%. Purchases from the Group's five largest suppliers accounted for 35.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.9%.

None of the directors or any of their 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 and 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
Ms. Chen Shirley Shiyou (resigned on 23 December 2013)
Mr. Wang Lei (appointed on 23 December 2013)

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

REPORT OF THE DIRECTORS

Pursuant to Article 84(1) of the Articles of Association of the Company, Ms. Sze Wan Nga, Mr. Chan Kai King and Mr. Lau Ching Kwong are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 83(3) of the Articles of Association of the Company, Mr. Wang Lei is subject to re-election at the forthcoming annual general meeting.

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 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 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' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in business, which compete or are likely to compete either directly or indirectly, with the business of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

REPORT OF THE DIRECTORS

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

As at 31 December 2013, 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

Name of director	Personal Interests	Corporate Interests	Total	Approximate percentage of existing issued share capital of the Company
Mr. Sze Wai Pan ("Mr. Sze")	–	521,365,260[1]	521,365,260	48.32%
Ms. Sze Wan Nga ("Ms. Sze")	–	29,640,000[2]	29,640,000	2.75%

Notes:

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 521,365,260 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 Rank Best Holdings Limited ("Rank Best") and therefore is deemed to be interested in 29,640,000 shares of the Company held by Rank Best.

(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	Rank Best	Beneficial owner	10,000	100%

Save as disclosed above, as at 31 December 2013, 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.

REPORT OF THE DIRECTORS

18. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, 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	521,365,260	48.32%
Sze BVI[(1)]	Interest in controlled corporation	521,365,260	48.32%
Freetech Cayman[(1)]	Beneficial owner	521,365,260	48.32%
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, Underlying Shares and Debentures" 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2013, 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, Underlying Shares and Debentures" 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.

19. 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. Further details of the Share Option Scheme are disclosed in note 32 to the financial statements. During the year, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme. There were no outstanding share options under the Share Option Scheme as at 31 December 2013.

20. CONNECTED TRANSACTIONS

Continuing connected transactions

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in notes 38(b) to 38(c) to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, 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 Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

21. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 38 to the financial statements. Apart from the continuing connected transactions set out in notes 38(b) to 38(c) to the financial statements, all other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules that are required to comply with any of the reporting, announcement, or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

22. 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.

23. 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.

24. AUDITORS

Ernst & Young 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, 25 March 2014

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Freetech Road Recycling Technology (Holdings) Limited
(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 (together, the "Group") set out on pages 38 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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.

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
25 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	6	**628,709**	486,003
Cost of sales		**(287,591)**	(222,964)
Gross profit		**341,118**	263,039
Other income and gains	6	**13,080**	10,272
Selling and distribution expenses		**(26,041)**	(20,344)
Administrative expenses		**(68,713)**	(44,675)
Other expenses		**(36,129)**	(14,411)
Finance costs	8	**(6,865)**	(4,025)
Share of profits and losses of:			
Joint ventures		**3,214**	3,573
Associates		**331**	(426)
PROFIT BEFORE TAX	7	**219,995**	193,003
Income tax expense	11	**(39,944)**	(42,630)
PROFIT FOR THE YEAR		**180,051**	150,373
Attributable to:			
Owners of the parent		**182,526**	146,593
Non-controlling interests		**(2,475)**	3,780
		180,051	150,373
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**HK19.93 cents**	HK19.73 cents
Diluted		**HK19.93 cents**	HK19.73 cents

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
PROFIT FOR THE YEAR	**180,051**	150,373
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**11,230**	4,874
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**11,230**	4,874
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**191,281**	155,247
Attributable to:		
Owners of the parent	**193,138**	151,275
Non-controlling interests	**(1,857)**	3,972
	191,281	155,247

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**160,861**	128,108
Prepaid land lease payments	16	**6,780**	6,788
Goodwill	17	**731**	731
Other intangible assets	18	**100**	182
Prepayments	24	**–**	3,157
Investments in joint ventures	20	**39,433**	26,832
Investments in associates	21	**9,283**	3,447
Deferred tax assets	30	**15,320**	9,277
Total non-current assets		**232,508**	178,522
CURRENT ASSETS			
Inventories	22	**33,360**	41,057
Trade and bills receivables	23	**548,784**	268,208
Prepayments, deposits and other receivables	24	**39,649**	17,341
Pledged deposits	26	**75**	448
Cash and cash equivalents	26	**614,697**	130,862
Total current assets		**1,236,565**	457,916
CURRENT LIABILITIES			
Trade payables	27	**79,163**	73,739
Other payables and accruals	28	**70,510**	44,671
Dividends payable		**–**	4,964
Due to the ultimate holding company	1	**–**	4,350
Interest-bearing bank borrowings	29	**49,629**	78,270
Tax payable		**16,829**	9,218
Total current liabilities		**216,131**	215,212
NET CURRENT ASSETS		**1,020,434**	242,704
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,252,942**	421,226
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	**21,772**	7,463
Deferred tax liabilities	30	**16,955**	17,476
Due to the immediate holding company	1	**–**	153,538
Total non-current liabilities		**38,727**	178,477
Net assets		**1,214,215**	242,749

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**107,900**	178
Reserves	33	**1,026,663**	220,407
Proposed final dividend	13	**59,345**	–
		1,193,908	220,585
Non-controlling interests		**20,307**	22,164
Total equity		**1,214,215**	242,749

Mr. Sze Wai Pan
Director

Ms. Sze Wan Nga
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		178	–	25,328	23,654	19,482	668	–	69,310	–	69,310
Profit for the year		–	–	–	–	–	146,593	–	146,593	3,780	150,373
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	4,682	–	–	4,682	192	4,874
Total comprehensive income for the year		–	–	–	–	4,682	146,593	–	151,275	3,972	155,247
Acquisition of a subsidiary	34	–	–	–	–	–	–	–	–	18,192	18,192
Transfer from retained profits		–	–	–	24,122	–	(24,122)	–	–	–	–
At 31 December 2012 and 1 January 2013		178	–	25,328*	47,776*	24,164*	123,139*	–	220,585	22,164	242,749
Profit for the year		–	–	–	–	–	182,526	–	182,526	(2,475)	180,051
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	10,612	–	–	10,612	618	11,230
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**10,612**	**182,526**	**–**	**193,138**	**(1,857)**	**191,281**
Special dividends declared	13	**–**	**–**	**–**	**–**	**–**	**(60,000)**	**–**	**(60,000)**	**–**	**(60,000)**
Issuance of new shares for capitalisation of the amount due to the immediate holding company	31	**9,822**	**143,361**	**–**	**–**	**–**	**–**	**–**	**153,183**	**–**	**153,183**
Capitalisation issue of shares	31	**68,000**	**(68,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of new shares in connection with the listing of the Company's shares	31	**29,900**	**696,670**	**–**	**–**	**–**	**–**	**–**	**726,570**	**–**	**726,570**
Share issue expenses		**–**	**(39,568)**	**–**	**–**	**–**	**–**	**–**	**(39,568)**	**–**	**(39,568)**
Proposed final 2013 dividend	13	**–**	**–**	**–**	**–**	**–**	**(59,345)**	**59,345**	**–**	**–**	**–**
Transfer from retained profits		**–**	**–**	**–**	**24,104**	**–**	**(24,104)**	**–**	**–**	**–**	**–**
At 31 December 2013		**107,900**	**732,463***	**25,328***	**71,880***	**34,776***	**162,216***	**59,345**	**1,193,908**	**20,307**	**1,214,215**

* These reserve accounts comprise the consolidated reserves of HK$1,026,663,000 (2012: HK$220,407,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**219,995**	193,003
Adjustments for:			
Finance costs	8	**6,865**	4,025
Share of profits and losses of joint ventures and associates		**(3,545)**	(3,147)
Interest income	6	**(6,450)**	(505)
Fair value gain from remeasurement of equity interest previously held in an acquired subsidiary to fair value	6	**–**	(8,757)
Depreciation	7	**18,543**	13,421
Impairment of trade receivables	7	**10,364**	8,208
Impairment/(reversal of impairment) of other receivables	7	**197**	(110)
Amortisation of other intangible assets	7	**106**	131
Amortisation of land lease payments	7	**204**	197
Loss on disposal of items of property, plant and equipment	7	**409**	65
		246,688	206,531
Decrease/(increase) in inventories		**7,697**	(3,819)
Increase in trade and bills receivables		**(291,924)**	(120,046)
Increase in prepayments, deposits and other receivables		**(10,696)**	(11,283)
Increase in amounts due from directors		**–**	3,651
Increase in trade payables		**5,424**	22,461
Increase in other payables and accruals		**25,839**	4,377
Increase in deferred income		**28,557**	63,650
Decrease in an amount due to the ultimate holding company		**(4,350)**	(10,545)
Exchange differences		**1,912**	3,438
Cash generated from operations		**9,147**	158,415
Interest received		**6,450**	505
Interest paid		**(6,865)**	(4,128)
Income tax paid		**(39,053)**	(37,654)
Net cash flows from/(used in) operating activities		**(30,321)**	117,138

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Net cash flows from/(used in) operating activities		**(30,321)**	117,138
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	15	**(48,508)**	(20,414)
Investments in joint ventures		**(33,783)**	(65,106)
Advance to a joint venture		**(8,645)**	–
Investments in associates		**(6,181)**	(21,209)
Addition of prepaid land lease payment	16	**–**	(217)
Additions of other intangible assets	18	**(18)**	(7)
Acquisition of a subsidiary	34	**–**	6,915
Proceeds from disposal of items of property, plant and equipment		**1,099**	9
Decrease/(increase) in pledged deposits		**373**	(54)
Increase in time deposits with original maturity of over three months when acquired		**(200,712)**	–
Net cash flows used in investing activities		**(296,375)**	(100,083)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	31	**726,570**	–
Share issue expenses		**(39,568)**	–
New bank loans		**144,007**	80,311
Repayment of bank loans		**(160,623)**	(54,133)
Dividends paid		**(64,964)**	(47,335)
Decrease in an amount due to the immediate holding company		**(355)**	(1,210)
Net cash flows from/(used in) financing activities		**605,067**	(22,367)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**278,371**	(5,312)
Cash and cash equivalents at beginning of year		**130,862**	135,263
Effect of foreign exchange rate changes, net		**4,752**	911
CASH AND CASH EQUIVALENTS AT END OF YEAR		**413,985**	130,862
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**261,120**	130,862
Non-pledged time deposits	26	**353,577**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**614,697**	130,862
Non-pledged time deposits with original maturity of over three months when acquired	26	**(200,712)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**413,985**	130,862

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,998**	1,269
Investments in subsidiaries	19	**1,253,923**	1,253,923
Total non-current assets		**1,255,921**	1,255,192
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**3,943**	3,118
Dividend receivable		**153,000**	–
Due from subsidiaries	19	**375,639**	131,167
Due from the ultimate holding company	1	**–**	7,177
Cash and cash equivalents	26	**370,074**	594
Total current assets		**902,656**	142,056
CURRENT LIABILITIES			
Other payables and accruals	28	**2,615**	5,099
NET CURRENT ASSETS		**900,041**	136,957
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,155,962**	1,392,149
NON-CURRENT LIABILITY			
Due to the immediate holding company	1	**–**	153,538
Net assets		**2,155,962**	1,238,611
EQUITY			
Issued capital	31	**107,900**	178
Reserves	33(b)	**1,988,717**	1,238,433
Proposed final dividend	13	**59,345**	–
Total equity		**2,155,962**	1,238,611

Mr. Sze Wai Pan
Director

Ms. Sze Wan Nga
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND GROUP REORGANISATION

Freetech Road Recycling Technology (Holdings) Limited (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's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2013 (the "Listing Date").

Pursuant to a reorganisation (the "Reorganisation") described in the section headed "History and Corporate structure" to the Company's prospectus dated 14 June 2013, the Company became the holding company of all the companies now comprising the Group on 12 August 2011.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were 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").

In the opinion of the directors of the Company, the ultimate holding company of the Company is Freetech Technology Limited, which was incorporated in Hong Kong and is wholly owned and controlled by Mr. Sze Wai Pan (the "Controlling Shareholder" and "Founder"), a director of the Company. The immediate holding company of the Company is Freetech (Cayman) Ltd., which was incorporated in the Cayman Islands.

The balances with the ultimate holding company as at 31 December 2012 were unsecured, interest-free and had no fixed terms of repayment.

The balances with the immediate holding company as at 31 December 2012 were unsecured, interest-free and not repayable within one year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *— Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36, and certain amendments included in *Annual Improvements 2009–2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates.* It also introduces a number of disclosure requirements for these entities. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 19, 20 and 21 to the financial statements.

(d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

(e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(g) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.

(h) *Annual Improvements 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments*: *Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
HKFRS 14	*Regulatory Deferral Account*[4]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated reserves other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate and joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at the end of each reporting period. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

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

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	9%
Furniture, fixtures and office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to the ultimate and immediate holding companies and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, and assets similar in nature to cash, which are not restricted to use.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, in the period in which the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Company operates a share option scheme 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 transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, associates and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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, are described below.

PRC corporate income tax ("PRC CIT")

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

Impairment of 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.

Write-down of inventories to net realisable value

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 3 to the financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the provision of road maintenance services segment; and

(b) the manufacturing and sale of road maintenance equipment segment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, exchange differences, share of profits and losses of joint ventures and associates, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures, investments in associates and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Geographic information

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.

Information about a major customer

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.

During the year ended 31 December 2012, there was one customer accounted for 10% or more of the Group's revenue and its revenue amounted to HK$45,380,000. The sales to the above customer were derived from the provision of road maintenance services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2013

	Provision of road maintenance services HK$'000	Manufacturing and sale of maintenance equipment HK$'000	Total HK$'000
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)
Revenue			631,934
Segment results	70,507	169,205	239,712
Reconciliation:			
Interest income			6,450
Exchange gains			3,405
Corporate and unallocated expenses			(26,252)
Share of profits and losses of joint ventures and associates			3,545
Finance costs			(6,865)
Profit before tax			219,995
Segment assets	498,383	364,681	863,064
Reconciliation:			
Elimination of intersegment receivables			(84,552)
Investments in joint ventures			39,433
Investments in associates			9,283
Corporate and other unallocated assets			641,845
Total assets			1,469,073
Segment liabilities	178,898	51,955	230,853
Reconciliation:			
Elimination of intersegment payables			(84,552)
Corporate and other unallocated liabilities			108,557
Total liabilities			254,858
Other segment information:			
Impairment losses recognised in the statement of profit or loss	8,490	2,071	10,561
Depreciation and amortisation	11,269	7,584	18,853
Capital expenditure*	43,752	4,774	48,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2012

	Provision of road maintenance services HK$'000	Manufacturing and sale of maintenance equipment HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	288,399	197,604	486,003
Intersegment sales	–	15,139	15,139
Other revenue	9,242	510	9,752
	297,641	213,253	510,894
Reconciliation:			
Elimination of intersegment sales			(15,139)
Revenue			495,755
Segment results	93,694	116,521	210,215
Reconciliation:			
Interest income			505
Exchange gains			15
Corporate and unallocated expenses			(16,854)
Share of profits and losses of joint ventures and associates			3,147
Finance costs			(4,025)
Profit before tax			193,003
Segment assets	349,093	162,895	511,988
Reconciliation:			
Elimination of intersegment receivables			(51,535)
Investments in joint ventures			26,832
Investments in associates			3,447
Corporate and other unallocated assets			145,706
Total assets			636,438
Segment liabilities	123,806	41,106	164,912
Reconciliation:			
Elimination of intersegment payables			(51,535)
Corporate and other unallocated liabilities			280,312
Total liabilities			393,689
Other segment information:			
Impairment losses recognised in the statement of profit or loss	7,810	288	8,098
Depreciation and amortisation	9,516	4,233	13,749
Capital expenditure*	14,470	6,168	20,638

* Capital expenditure consists of additions to property, plant and equipment, land use rights, and other intangible assets, excluding assets from the acquisition of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts; and the value of services provided during the year.

An analysis of the Group's other income and gains is as follows:

	2013 **HK$'000**	2012 HK$'000
Other income and gains		
Government grants*	**3,225**	932
Interest income	**6,450**	505
Foreign exchange differences, net	**3,405**	15
Fair value gain from remeasurement of equity interest previously held in an acquired subsidiary to fair value	**–**	8,757
Others	**–**	63
	13,080	10,272

* Various government grants have been received for investments in certain provinces in Mainland China in which the Company's subsidiaries operate. There are no unfulfilled conditions for contingencies relating to these grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2013 HK$'000	2012 HK$'000
Cost of inventories sold		**87,185**	61,903
Cost of services provided		**200,406**	161,061
Depreciation	15	**18,543**	13,421
Amortisation of other intangible assets	18	**106**	131
Amortisation of land lease payments	16	**204**	197
Auditors' remuneration		**1,280**	189
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**72,011**	55,178
Pension scheme contributions**		**5,112**	3,913
		77,123	59,091
Minimum lease payments under operating leases of land and buildings		**5,625**	3,246
Loss on disposal of items of property, plant and equipment*		**409**	65
Impairment of trade receivables*	23	**10,364**	8,208
Impairment/(reversal of impairment) of other receivables*		**197**	(110)
Research and development costs*		**24,658**	5,989

* These items are included in "Other expenses" in the consolidated statement of profit or loss.

** At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

8. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Group 2013 HK$'000	2012 HK$'000
Interest on bank loans wholly repayable within five years	**6,865**	4,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2013 **HK$'000**	2012 HK$'000
Fees	**300**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**3,597**	3,330
Performance related bonuses	**2,000**	1,360
Pension scheme contributions	**60**	52
	5,657	4,742
	5,957	4,742

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2013 **HK$'000**	2012 HK$'000
Ms. Yeung Sum (note 1)	**100**	–
Mr. Tang Koon Yiu, Thomas (note 1)	**100**	–
Mr. Lau Ching Kwong (note 1)	**100**	–
	300	–

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2013					
Executive directors:					
Mr. Sze Wai Pan	**–**	**1,430**	**800**	**15**	**2,245**
Ms. Sze Wan Nga	**–**	**791**	**600**	**15**	**1,406**
Mr. Chan Kai King	**–**	**715**	**300**	**15**	**1,030**
Mr. Zhang Yi Fu	**–**	**661**	**300**	**15**	**976**
	–	**3,597**	**2,000**	**60**	**5,657**
Non-executive directors:					
Mr. Yeung Chin Chiu	**–**	**–**	**–**	**–**	**–**
Ms. Chen Shirley Shiyou (note 2)	**–**	**–**	**–**	**–**	**–**
Mr. Wang Lei (note 3)	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
	–	**3,597**	**2,000**	**60**	**5,657**
2012					
Executive directors:					
Mr. Sze Wai Pan	–	1,310	500	13	1,823
Ms. Sze Wan Nga	–	732	400	13	1,145
Mr. Chan Kai King	–	657	220	13	890
Mr. Zhang Yi Fu	–	631	240	13	884
	–	3,330	1,360	52	4,742
Non-executive directors:					
Mr. Yeung Chin Chiu	–	–	–	–	–
Ms. Chen Shirley Shiyou	–	–	–	–	–
	–	–	–	–	–
	–	3,330	1,360	52	4,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

Notes:

(1) Ms. Yeung Sum, Mr. Tang Koon Yiu, Thomas and Mr. Lau Ching Kwong were appointed as independent non-executive directors of the Company on 10 August 2012.

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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2012: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2012: one) non-director, highest paid employees are as follows:

	Group	
	2013	2012
	HK$'000	HK $'000
Salaries, allowances and benefits in kind	**691**	637
Performance related bonuses	**300**	120
Pension scheme contributions	**15**	13
	1,006	770

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–
	1	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAX

	2013 **HK$'000**	2012 HK $'000
Group:		
Current:		
Mainland China	**46,664**	41,579
Hong Kong	**–**	353
Deferred (note 30)	**(6,720)**	698
Total tax charge for the year	**39,944**	42,630

Hong Kong profits tax

No provision for Hong Kong profits tax has been made for the year ended 31 December 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 the year. For the year ended 31 December 2012, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

PRC CIT

PRC CIT represents the tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25%, except for certain PRC subsidiaries which were entitled to preferential tax rates during the year.

During the years ended 31 December 2013 and 2012, 英達熱再生有限公司 (Freetech Road Recycling Corporation*) ("Freetech Road Recycling") and 南京英達公路養護車製造有限公司 (Nanjing Freetech Road Maintenance Vehicle Manufacturing Corporation*) ("Freetech Manufacturing") were registered as new and high technology enterprises, and were subject to PRC CIT at a rate of 15% on their assessable profits.

* For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2013

	Mainland China		Hong Kong		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	236,490		(16,495)		219,995	
Tax at the statutory tax rate	59,123	25.0	(2,722)	16.5	56,401	25.6
Lower tax rates for specific provinces or enacted by local authority	(22,599)	(9.6)	–	–	(22,599)	(10.3)
Profits and losses attributable to joint ventures and associates	(887)	(0.3)	–	–	(887)	(0.4)
Income not subject to tax	(511)	(0.2)	(257)	1.6	(768)	(0.3)
Effect of withholding tax at 5% on the distribution of profits of the Group's PRC subsidiaries	2,256	1.0	–	–	2,256	1.0
Expenses not deductible for tax	1,404	0.6	2,902	(17.6)	4,306	2.0
Tax losses utilised from previous periods	–	–	(44)	0.2	(44)	–
Tax losses not recognised	1,158	0.4	121	(0.7)	1,279	0.6
Tax charge at the Group's effective rate	39,944	16.9	–	–	39,944	18.2

Group — 2012

	Mainland China		Hong Kong		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	208,157		(15,154)		193,003	
Tax at the statutory tax rate	52,039	25.0	(2,500)	16.5	49,539	25.7
Lower tax rates for specific provinces or enacted by local authority	(18,197)	(8.7)	–	–	(18,197)	(9.4)
Profits and losses attributable to joint ventures and associates	(787)	(0.4)	–	–	(787)	(0.4)
Income not subject to tax	(2,253)	(1.1)	313	(2.1)	(1,940)	(1.0)
Effect of withholding tax at 5% on the distribution of profits of the Group's PRC subsidiaries	9,867	4.7	–	–	9,867	5.1
Expenses not deductible for tax	1,608	0.8	2,540	(16.7)	4,148	2.1
Tax charge at the Group's effective rate	42,277	20.3	353	(2.3)	42,630	22.1

The share of tax attributable to joint ventures amounting to HK$98,000 (2012: HK$745,000) is included in the "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of HK$15,834,000 (2012: a loss of HK$13,761,000), which was arrived at after deducting dividend income received from a subsidiary of HK$153,000,000 (2012: Nil) from the Company's profit of HK$137,166,000 (2012: a loss of HK$13,761,000), which has been dealt with in the financial statements of the Company (note 33(b)).

13. DIVIDENDS

	2013 **HK$'000**	2012 HK $'000
Special dividend (Note)	**60,000**	–
Proposed final — HK5.5 cents (2012: Nil) per ordinary share	**59,345**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Note: On 7 June 2013, the Company declared the dividend distribution totalling HK$60,000,000 to its shareholders before the listing of the shares of the Company. Investors becoming shareholders of the Company after the listing of the Company on the Stock Exchange were not entitled to such dividend.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the year ended 31 December 2013 is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 916,015,819 (2012: 742,979,453) in issue during the year ended 31 December 2013, on the assumption that the issue of shares for capitalisation of the amount due to the immediate holding company had been adjusted for the bonus element on 1 January 2012 and the capitalisation issue of shares had been completed on 1 January 2012, as further detailed in note 31 to the financial statements.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

The calculations of basic earnings per share are based on:

	2013 HK$'000	2012 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**182,526**	146,593

	Number of shares 2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**916,015,819**	742,979,453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2013						
At 31 December 2012 and 1 January 2013:						
Cost	**29,836**	**142,414**	**5,441**	**16,962**	**900**	**195,553**
Accumulated depreciation	**(8,100)**	**(47,786)**	**(3,172)**	**(8,387)**	**–**	**(67,445)**
Net carrying amount	**21,736**	**94,628**	**2,269**	**8,575**	**900**	**128,108**
At 1 January 2013, net of accumulated depreciation	**21,736**	**94,628**	**2,269**	**8,575**	**900**	**128,108**
Additions	**–**	**6,804**	**319**	**8,170**	**33,215**	**48,508**
Depreciation provided during the year	**(1,340)**	**(13,473)**	**(488)**	**(3,242)**	**–**	**(18,543)**
Disposals/write-off	**(438)**	**(990)**	**(13)**	**(67)**	**–**	**(1,508)**
Exchange realignment	**616**	**2,854**	**54**	**289**	**483**	**4,296**
At 31 December 2013, net of accumulated depreciation	**20,574**	**89,823**	**2,141**	**13,725**	**34,598**	**160,861**
At 31 December 2013:						
Cost	**30,143**	**149,967**	**5,859**	**25,032**	**34,598**	**245,599**
Accumulated depreciation	**(9,569)**	**(60,144)**	**(3,718)**	**(11,307)**	**–**	**(84,738)**
Net carrying amount	**20,574**	**89,823**	**2,141**	**13,725**	**34,598**	**160,861**
31 December 2012						
At 1 January 2012:						
Cost	29,595	108,123	4,697	9,406	228	152,049
Accumulated depreciation	(6,701)	(35,439)	(2,715)	(6,627)	–	(51,482)
Net carrying amount	22,894	72,684	1,982	2,779	228	100,567
At 1 January 2012, net of accumulated depreciation	22,894	72,684	1,982	2,779	228	100,567
Additions	–	3,116	688	7,141	9,469	20,414
Acquisition of a subsidiary (note 34)	–	22,934	16	294	–	23,244
Transfers	–	8,807	–	–	(8,807)	–
Depreciation provided during the year	(1,328)	(10,012)	(432)	(1,649)	–	(13,421)
Disposals/write-off	–	(1)	(1)	(72)	–	(74)
Transfer to inventories	–	(2,922)	–	–	–	(2,922)
Exchange realignment	170	22	16	82	10	300
At 31 December 2012, net of accumulated depreciation	21,736	94,628	2,269	8,575	900	128,108
At 31 December 2012:						
Cost	29,836	142,414	5,441	16,962	900	195,553
Accumulated depreciation	(8,100)	(47,786)	(3,172)	(8,387)	–	(67,445)
Net carrying amount	21,736	94,628	2,269	8,575	900	128,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2013			
At 31 December 2012 and 1 January 2013:			
Cost	**400**	**1,149**	**1,549**
Accumulated depreciation	**(50)**	**(230)**	**(280)**
Net carrying amount	**350**	**919**	**1,269**
At 1 January 2013, net of accumulated depreciation	**350**	**919**	**1,269**
Additions	**26**	**1,087**	**1,113**
Depreciation provided during the year	**(82)**	**(302)**	**(384)**
At 31 December 2013, net of accumulated depreciation	**294**	**1,704**	**1,998**
At 31 December 2013			
Cost	**426**	**2,236**	**2,662**
Accumulated depreciation	**(132)**	**(532)**	**(664)**
Net carrying amount	**294**	**1,704**	**1,998**
31 December 2012			
At 1 January 2012	201	1,149	1,350
Additions	199	–	199
Depreciation provided during the year	(50)	(230)	(280)
At 31 December 2012, net of accumulated depreciation	350	919	1,269
At 31 December 2012:			
Cost	400	1,149	1,549
Accumulated depreciation	(50)	(230)	(280)
Net carrying amount	350	919	1,269

Certain of the Group's buildings and plant and machinery with an aggregate net carrying amount of HK$45,180,000 (2012: HK$39,491,000) were pledged to banks to secure the bank loans granted to the Group (note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	HK$'000	HK$'000
Carrying amount at 1 January	**6,988**	6,911
Additions	**–**	217
Recognised during the year	**(204)**	(197)
Exchange realignment	**203**	57
Carrying amount at 31 December	**6,987**	6,988
Current portion included in prepayments, deposits and other receivables	**(207)**	(200)
Non-current portion	**6,780**	6,788

The leasehold lands are situated in Mainland China and are held under medium term leases.

Certain of the Group's leasehold lands with an aggregate net carrying amount of HK$6,987,000 (2012: HK$4,331,000) were pledged to banks to secure the bank loans granted to the Group (note 29).

17. GOODWILL

	Group	
	2013	2012
	HK$'000	HK$'000
Cost and net carrying amount at beginning of year	**731**	–
Acquisition of a subsidiary (note 34)	**–**	731
Cost and net carrying amount at end of year	**731**	731

The addition of the Group's goodwill for the year ended 31 December 2012 was resulted from the acquisition of a subsidiary, 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"). Further details of the transaction are included in note 34 to the financial statements.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. GOODWILL *(Continued)*

Impairment testing of goodwill

The cash flows generated from the subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, the acquired subsidiary is a separate cash-generating unit. Management considered that the synergies arising from the acquisition mainly benefited the corresponding acquired subsidiary. Therefore, in performing the impairment test, the goodwill generated from the acquisition is allocated to the corresponding subsidiary acquired.

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a five-year period approved by senior management. The discount rates applied to the cash flow projections are in the range of 13% to 15%. The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3%, which is also an estimate of the rate of inflation.

Assumptions were used in the value-in-use calculation of the cash-generating unit. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

18. OTHER INTANGIBLE ASSETS

Group

	Computer software HK$'000
31 December 2013	
At 31 December 2012 and 1 January 2013:	
Cost	**663**
Accumulated amortisation	**(481)**
Net carrying amount	**182**
At 1 January 2013, net of accumulated amortisation	**182**
Additions	**18**
Amortisation provided during the year	**(106)**
Exchange realignment	**6**
At 31 December 2013, net of accumulated amortisation	**100**
At 31 December 2013:	
Cost	**706**
Accumulated amortisation	**(606)**
Net carrying amount	**100**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

	Computer software HK$'000
31 December 2012	
At 1 January 2012:	
Cost	655
Accumulated amortisation	(350)
Net carrying amount	305
At 1 January 2012, net of accumulated amortisation	305
Additions	7
Amortisation provided during the year	(131)
Exchange realignment	1
At 31 December 2012, net of accumulated amortisation	182
At 31 December 2012:	
Cost	663
Accumulated amortisation	(481)
Net carrying amount	182

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**1,253,923**	1,253,923

The amounts due from subsidiaries included in the Company's current assets of HK$375,639,000 (2012: HK$131,167,000) are unsecured, interest-free and are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Freetech Road Recycling Engineering Limited	BVI	US$2	100	–	Investment holding
BS (BVI) Limited	BVI	US$1	100	–	Investment holding
Freetech Road Maintenance Engineering Co., Limited	Hong Kong	HK$3	–	100	Investment holding and sale of road maintenance equipment
BS (Int'l) Automobile Technology Co., Limited	Hong Kong	HK$1,000,000	–	100	Investment holding and sale of road maintenance equipment
Freetech Road Recycling*	PRC	US$135,060,000	–	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	US$5,050,000	–	100	Sale of road maintenance equipment
Freetech Manufacturing^	PRC	US$9,700,000	–	100	Manufacturing and sale of road maintenance equipment
Freetech Ordos**	PRC	RMB30,000,000	–	53	Provision of road maintenance services
新疆英達熱再生有限公司 Xinjiang Freetech Road Recycling Co., Ltd.** #	PRC	RMB10,000,000	–	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	RMB100,000	–	100	Provision of road maintenance services

\# The names of these companies referred to in these financial statements represent management's best effort at translating the Chinese names of these companies, as no English names have been registered.

* Registered as wholly-foreign-owned enterprises under PRC law.

** Registered as limited liability companies under PRC law.

^ Registered as a sino-foreign joint venture under PRC law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

In 2012, the Group acquired a 2% equity interest in Freetech Ordos, which was previously a joint venture of the Group. Upon completion of the acquisition, Freetech Ordos became a subsidiary of the Group. Further details of this acquisition are included in note 34 to the financial statements.

The statutory financial statements of above subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2013	2012
Percentage of equity interest held by non-controlling interests:		
Freetech Ordos	**47%**	47%

	2013 **HK$'000**	2012 HK$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Freetech Ordos	**(2,475)**	3,780
Accumulated balances of non-controlling interests at the reporting dates:		
Freetech Ordos	**20,307**	22,164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following tables illustrate the summarised financial information of Freetech Ordos. The amounts disclosed are before any inter-company eliminations:

	2013	2012
	HK$'000	HK$'000
Revenue	**–**	37,906
Total expenses	**(5,265)**	(19,789)
Profit/(loss) for the year	**(5,265)**	18,117
Total comprehensive income/(loss) for the year	**(3,950)**	18,526
Current assets	**36,283**	60,194
Non-current assets	**20,389**	22,516
Current liabilities	**(13,474)**	(35,562)
Net cash flows from/(used in) operating activities	**(23,444)**	2,779
Net cash flows from/(used in) investing activities	**15**	(521)
Net cash flows from financing activities	**–**	18,192
Net increase/(decrease) in cash and cash equivalents	**(23,429)**	20,450

20. INVESTMENTS IN JOINT VENTURES

	Group	
	2013	2012
	HK$'000	HK$'000
Share of net assets (note)	**113,132**	70,860
Unrealised profit of sales to joint ventures	**(73,699)**	(44,028)
	39,433	26,832

Note: Prior to 21 June 2012, the Group held 51% of the equity interests in Freetech Ordos and accounted for it as a joint venture by using the equity method. Effective from 21 June 2012, the Group has obtained the control over Freetech Ordos and Freetech Ordos became a subsidiary of the Group. A fair value gain of HK$8,757,000 from remeasurement of equity interest previously held in Freetech Ordos to fair value was recognised in profit or loss upon the consolidation of Freetech Ordos.

The Group's trade balances with joint ventures are disclosed in note 23 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Particulars of the Group's joint ventures are as follows:

Name of company	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power*	Percentage of Profit sharing	Principal activities
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")	Paid-up capital of RMB19,250,000	PRC	55%	55%	55%	Provision of road maintenance services
福達道路再生工程有限公司 Futech Road Recycling Engineering Limited	Ordinary shares of HK$31,500,000	Hong Kong	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.#	Paid-up capital of HK$31,500,000	PRC	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")	Paid-up capital of RMB18,000,000	PRC	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.#	Paid-up capital of RMB1,530,000	PRC	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.#	Paid-up capital of RMB8,750,000	PRC	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.#	Paid-up capital of RMB10,500,000	PRC	35%	35%	35%	Provision of road maintenance services
財匯有限公司 Flourish Rich Limited	Ordinary shares HK$10,331,294	Hong Kong	15%	50%	15%	Investment holding
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited#	Paid-up capital of US$1,329,300	PRC	15%	50%	15%	Provision of leasing services

* The voting power is determined with reference to the number of directors representing the Group in the respective board of directors of the above joint ventures.

\# The names of these companies referred to in these financial statements represent management's best effort at translating the Chinese names of these companies, as no English names have been registered.

All of the above investments in joint ventures are indirectly held by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

In the opinion of the directors, Hunan Freetech Tongqu and Nanjing Lujie are considered material joint ventures of the Group and are accounted for using the equity method.

The following tables illustrate the summarised financial information of the above material joint ventures, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the financial statements:

Hunan Freetech Tongqu

	2013 **HK$'000**	2012 HK$'000
Cash and cash equivalents	**1,823**	582
Other current assets	**21,373**	24,611
Current assets	**23,196**	25,193
Non-current assets	**35,106**	37,395
Financial liabilities, excluding trade and other payables	**(8,343)**	(11,849)
Other current liabilities	**(8,129)**	(4,744)
Current liabilities	**(16,472)**	(16,593)
Net assets	**41,830**	45,995
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**55%**	55%
Share of net assets	**22,781**	25,297
Unrealised profit of sales to joint ventures	**(11,593)**	(12,478)
Carrying amount of the investment	**11,188**	12,819
Revenue	**9,136**	31,419
Interest income	**3**	18
Depreciation and amortisation	**(3,983)**	(2,550)
Tax	**–**	(843)
Profit/(loss) for the year	**(5,442)**	2,604
Other comprehensive income	**1,278**	390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN JOINT VENTURES *(Continued)*

Nanjing Lujie

	2013 **HK$'000**	2012 HK$'000
Cash and cash equivalents	**5,159**	1,410
Other current assets	**19,139**	–
Current assets	**24,298**	1,410
Non-current assets	**52,845**	40,885
Financial liabilities, excluding trade and other payables	**(21,769)**	(4,975)
Other current liabilities	**(4,986)**	(32)
Current liabilities	**(26,755)**	(5,007)
Net assets	**50,388**	37,288
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**45%**	45%
Share of net assets	**22,934**	14,915
Unrealised profit of sales to joint ventures	**(9,943)**	(7,317)
Carrying amount of the investment	**12,991**	7,598
Revenue	**22,713**	–
Interest income	**77**	2
Depreciation and amortisation	**(5,653)**	–
Tax	**(217)**	–
Profit/(loss) for the year	**662**	(30)
Other comprehensive income	**63**	334

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2013 **HK$'000**	2012 HK$'000
Share of the joint ventures' loss for the year	**(5,091)**	(1,231)
Share of the joint ventures' other comprehensive income for the year	**788**	240
Share of the joint ventures' total comprehensive loss	**(4,303)**	(991)
Aggregate carrying amount of the Group's investments in the joint ventures	**15,254**	6,415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INVESTMENTS IN ASSOCIATES

	Group 2013 HK$'000	2012 HK$'000
Share of net assets	**25,265**	20,543
Unrealised profit of sales to associates	**(15,982)**	(17,096)
	9,283	3,447

The Group's trade balances with associates are disclosed in notes 23 and 27 to the financial statements.

Particulars of the associates are as follows:

Name of company	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
宿遷恒通道路再生工程有限公司 Suqian Hengtong Road Recycling Constructions Co., Ltd.#* ("Suqian Hengtong")	Paid-up capital of RMB12,250,000	PRC	35%	Provision of road maintenance services
新疆建達道路工程有限公司 Xinjiang Jianda Road Engineering Co., Ltd.#* ("Xinjiang Jianda")	Paid-up capital of RMB9,800,000	PRC	49%	Provision of road maintenance services

The names of these companies referred to in these financial statements represent management's best effort at translating the Chinese names of these companies, as no English names have been registered.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

All of the above investments in associates are indirectly held by the Company.

In the opinion of the directors of the Company, Suqian Hengtong is considered a material associate of the Group and is accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of Suqian Hengtong, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Suqian Hengtong

	2013 **HK$'000**	2012 HK$'000
Cash and cash equivalents	**2,787**	7,003
Other current assets	**2,999**	3,482
Current assets	**5,786**	10,485
Non-current assets	**35,432**	38,234
Financial liabilities, excluding trade and other payables	**(9)**	(7,475)
Other current liabilities	**(100)**	(233)
Current liabilities	**(109)**	(7,708)
Net assets	**41,109**	41,011
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**35%**	35%
Share of net assets	**14,388**	14,354
Unrealised profit of sales to the associate	**(8,294)**	(8,662)
Carrying amount of the investment	**6,094**	5,692
Revenue	**10,194**	1,852
Interest income	**30**	23
Depreciation and amortisation	**(4,115)**	(941)
Loss for the year	**(1,099)**	(2,496)
Other comprehensive income	**276**	618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the financial information of the Group's associate that is not individually material:

	2013	2012
	HK$'000	HK$'000
Share of the associate's loss for the year	**(1,085)**	(9)
Share of the associate's other comprehensive loss for the year	**(86)**	(5)
Share of the associate's total comprehensive loss for the year	**(1,171)**	(14)
Carrying amount of the Group's investments in the associate	**3,189**	(2,245)

22. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**12,649**	13,453
Work-in-progress	**19,257**	27,045
Finished goods	**1,454**	559
	33,360	41,057

23. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	HK$'000	HK$'000
Trade and bills receivables from third parties	**431,070**	269,093
Trade receivables from joint ventures and associates	**154,586**	29,575
Impairment	**(36,872)**	(30,460)
	548,784	268,208

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Except for a trade receivable of approximately HK$18,162,000 (2012: HK$26,986,000) as at 31 December 2013 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**220,444**	113,726
3 to 12 months	**194,645**	89,436
1 to 2 years	**96,760**	24,520
Over 2 years	**36,935**	40,526
	548,784	268,208

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**30,460**	21,996
Impairment losses recognised (note 7)	**10,364**	8,208
Amount written off as uncollectable	**(4,936)**	–
Exchange realignment	**984**	256
At 31 December	**36,872**	30,460

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$14,214,000 (2012: HK$20,628,000) with a carrying amount before provision of HK$14,214,000 (2012: HK$20,628,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and the full amount of the receivables is expected to be irrecoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**299,897**	146,781
Less than 1 month past due	**16,581**	22,206
1 to 3 months past due	**11,479**	6,257
More than 3 months but less than 12 months past due	**45,509**	27,918
Over 1 year	**5,680**	–
	379,146	203,162

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. See note 41 on credit risk of trade receivables to understand how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

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.

Included in the trade receivables are amounts due from the Group's joint ventures and associates of HK$150,360,000 (2012: HK$10,532,000) and HK$4,226,000 (2012: HK$19,043,000) respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2012, certain of the Group's trade receivables with an aggregate amount of HK$47,784,000 were pledged to banks to secure the bank loans granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2013	2012
	HK$'000	HK$'000
Prepayments	**8,545**	11,165
Deposits and other receivables	**31,104**	9,333
	39,649	20,498
Portion classified as non-current asset — prepayments	**–**	(3,157)
	39,649	17,341

	Company	
	2013	2012
	HK$'000	HK$'000
Prepayments	**250**	3,044
Deposits and other receivables	**3,693**	74
	3,943	3,118

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Included in the Group's deposits and other receivables is an amount due from a joint venture of HK$8,645,000 (2012: Nil), which is unsecured, bears interest at a rate of 5% per annum and is repayable within one year.

Included in the Group's deposits and other receivables are amounts due from joint ventures of HK$292,000 (2012: HK$71,000), which are unsecured, interest-free and have no fixed terms of repayment.

Included in the Company's deposits and other receivables is an amount due from a joint venture of HK$71,000 (2012: HK$71,000), which is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. AMOUNTS DUE FROM DIRECTORS

	Group	
	2013	2012
	HK$'000	HK$'000
Mr. Sze Wai Pan	**–**	–
Ms. Sze Wan Nga	**–**	–
	–	–

The maximum outstanding amounts due from Mr. Sze Wai Pan and Ms. Sze Wan Nga during the year were HK$1,417,000 (2012: HK$2,579,000) and HK$133,000 (2012: HK$1,072,000), respectively.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**261,120**	130,862	**16,497**	594
Time deposits with original maturity of three months or less when acquired	**152,940**	448	**152,865**	–
	414,060	131,310	**169,362**	594
Time deposits with original maturity of over three months when acquired	**200,712**	–	**200,712**	–
Less: Pledged time deposits for performance bonds	**(75)**	(448)	**–**	–
Cash and cash equivalents	**614,697**	130,862	**370,074**	594

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$225,034,000 (2012: HK$97,431,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods ranging between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within 3 months	**34,715**	24,965
3 to 12 months	**18,070**	26,631
1 to 2 years	**5,297**	2,282
Over 2 years	**21,081**	19,861
	79,163	73,739

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 180 days.

Included in the Group's trade payables is an amount due to an associate of approximately HK$2,086,000 (2012: HK$2,240,000) which is repayable within 90 days, which represents credit terms similar to those offered by the associate to its major customers.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**919**	6,987	**–**	–
Other payables and accruals	**69,591**	37,684	**2,615**	5,099
	70,510	44,671	**2,615**	5,099

Other payables are non-interest-bearing and are normally settled on terms ranging from 30 to 180 days.

Included in the Group's other payables and accruals are deferred unrealised profits of sales, net, to joint ventures of HK$12,451,000 (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. INTEREST-BEARING BANK BORROWINGS

Group

	2013			2012		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans — secured	**6.00-6.90**	**2014-2017 or on demand**	**27,857**	6.00-8.20	2013-2017 or on demand	73,295
Bank loans — unsecured	**6.00**	**2014**	**16,649**	–	–	–
Current portion of long-term bank loans — unsecured	**6.15**	**2014**	**5,123**	6.15	2013	4,975
			49,629			78,270
Non-current						
Bank loans — unsecured	**6.15**	**2015**	**21,772**	6.15	2014	7,463
			71,401			85,733

	2013 HK$'000	2012 HK$'000
Analysed into bank loans repayable:		
Within one year or on demand	**49,629**	78,270
In the second year	**21,772**	7,463
	71,401	85,733

Notes:

(a) As at 31 December 2013, certain of the Group's bank loans were secured by:

(i) Mortgages over the Group's buildings and plant and machinery with an aggregate carrying amount of approximately HK$45,180,000 (2012: HK$39,491,000); and

(ii) Mortgages over the Group's leasehold land with an aggregate carrying amount of approximately HK$6,987,000 (2012: HK$4,331,000).

In addition, the secured bank loans of approximately HK$21,454,000 (2012: Nil) were guaranteed by the Company.

(b) Included in the Group's bank loans repayable within one year or on demand is a secured bank loan of HK$10,568,000 (2012: HK$14,088,000) with an on demand clause.

(c) As at 31 December 2012, the bank loans of approximately HK$80,136,000 were guaranteed by the Founder.

(d) As at 31 December 2012, the bank loans of approximately HK$26,649,000 were guaranteed by the ultimate holding company.

(e) All of the Group's bank borrowings are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Unrealised profits from intra-group transactions	
	2013	2012
	HK$'000	HK$'000
At 1 January	**9,277**	–
Deferred tax credited to the statement of profit or loss during the year (note 11)	**5,681**	9,169
Exchange realignment	**362**	108
At 31 December	**15,320**	9,277

Deferred tax liabilities

Group

	Withholding taxes	
	2013	2012
	HK$'000	HK$'000
At 1 January	**17,476**	7,548
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	**(1,039)**	9,867
Exchange realignment	**518**	61
At 31 December	**16,955**	17,476

The Group has tax losses arising in Hong Kong of HK$2,168,000 (2012: HK$1,478,000) 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 HK$4,704,000 (2012: Nil) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SHARE CAPITAL

Shares

	2013 HK$'000	2012 HK$'000
Authorised:		
10,000,000,000 (2012: 3,900,000) ordinary shares of HK$0.1 each	**1,000,000**	390
Issued and fully paid:		
1,079,000,000 (2012: 1,781,636) ordinary shares of HK$0.1 each	**107,900**	178

A summary of the transactions during the year in the Company's authorised and issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000
Authorised:			
At 1 January 2012, 31 December 2012 and 1 January 2013		3,900,000	390
Increase in authorised share capital on 7 June 2013	(a)	9,996,100,000	999,610
At 31 December 2013		10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2012, 31 December 2012 and 1 January 2013		1,781,636	178
Issuance of new shares for capitalisation of the amount due to the 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 listing of the Company's shares on 23 July 2013	(d)	39,000,000	3,900
At 31 December 2013		1,079,000,000	107,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SHARE CAPITAL *(Continued)*

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. This issue and allotment of shares became unconditional on the Listing Date.

(b) On 7 June 2013, the Company capitalised the amount due to the 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.

(c) In connection with the Company's global offering, 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 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.

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SHARE OPTION SCHEME *(Continued)*

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 Stock Exchange's daily quotation sheet on the offer date; and (iii) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

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

No share options were granted under the Scheme during the year.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 42 of the financial statements.

(i) Contributed surplus

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.

(ii) Reserve funds

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. RESERVES *(Continued)*

(b) Company

	Notes	Share premium accounts HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2012		–	1,253,901	(1,707)	1,252,194
Loss for the year		–	–	(13,761)	(13,761)
At 31 December 2012 and 1 January 2013		–	1,253,901	(15,468)	1,238,433
Profit for the year		–	–	137,166	137,166
Special dividends declared	13	–	–	(60,000)	(60,000)
Issuance of new shares for capitalisation of the amount due to the immediate holding company	31	143,361	–	–	143,361
Capitalisation issue of shares	31	(68,000)	–	–	(68,000)
Issuance of new shares in connection with the listing of the Company's shares	31	696,670	–	–	696,670
Share issue expenses		(39,568)	–	–	(39,568)
Proposed final 2013 dividend	13	–	–	(59,345)	(59,345)
At 31 December 2013		732,463	1,253,901	2,353	1,988,717

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation referred to in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. BUSINESS COMBINATION

In May 2012, the Group entered into a share purchase agreement with its joint venture partner, 鄂爾多斯市路通公路養護有限責任公司 (Ordos Lutong Road Maintenance Co., Ltd.*) ("**Lutong Ordos**"), to acquire a 2% equity interest in Freetech Ordos, which was previously a joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB1,200,000 (equivalent to approximately of HK$1,481,000) paid at the acquisition date. Together with the 51% equity interest held before the acquisition, the Group's interest in Freetech Ordos increased to 53% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Freetech Ordos, and the Group obtained the control in Freetech Ordos, and Freetech Ordos became a subsidiary of the Group. The acquisition was completed on 21 June 2012. Freetech Ordos 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 Inner Mongolia.

The fair values of the identifiable assets and liabilities of Freetech Ordos as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	15	23,244
Trade receivables		19,236
Prepayments, deposits and other receivables		499
Cash and bank balances		8,396
Trade payables		(10,109)
Other payables and accruals		(2,013)
Tax payable		(547)
Total identifiable net assets at fair value		38,706
Non-controlling interests		(18,192)
Goodwill on acquisition	17	731
		21,245

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. BUSINESS COMBINATION *(Continued)*

	HK$'000
Satisfied by:	
Fair value of equity interest previously held as investment in a joint venture	19,764
Cash and bank balances	1,481
	21,245

The measurement basis of non-controlling interests is the non-controlling interests' proportionate shares of the fair value of the acquirees' net identifiable assets.

The Group held a 51% equity interest in Freetech Ordos immediately before obtaining the control of it. The Group remeasured the fair value of the equity interest previously held at the date it became a subsidiary, a fair value gain of HK$8,757,000 was recognised in profit or loss during the year ended 31 December 2012.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Freetech Ordos is as follows:

	2012 HK$'000
Cash consideration	(1,481)
Cash and bank balances acquired	8,396
Net inflow of cash and cash equivalents included in cash flows from investing activities	6,915

35. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2013 **HK$'000**	2012 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**80,575**	–

As at 31 December 2013, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$49,540,000 (2012: Nil).

At the end of the reporting period, the Group did not have any significant contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. OPERATING LEASE ARRANGEMENTS — AS LESSEE

The Group leases certain of its office properties and warehouses under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2013	2012
	HK$'000	HK$'000
Within one year	**3,224**	1,319
In the second to fifth years, inclusive	**1,732**	43
	4,956	1,362

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2013	2012
	HK$'000	HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**44,719**	43,673
Capital contributions payable to a joint venture	**7,838**	7,613
Capital contributions payable to an associate	**6,275**	6,095
	58,832	57,381
Authorised, but not provided for:		
Property, plant and equipment	**11,766**	18,742
	70,598	76,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2013	2012
	HK$'000	HK$'000
Transaction with joint ventures:		
Sales of goods (note i)	**157,015***	50,745*
Provision of road maintenance services (note i)	**–**	2,818
Transaction with associates:		
Sales of goods (note i)	**–**	55,339*
Receiving of road maintenance services (note i)	**4,423**	1,914
Transaction with companies controlled by the Founder:		
Purchases of goods (note i)	**–**	164
Banking facilities guarantees given by the Founder (note ii)	**–**	123,351
Banking facilities guarantees given by the ultimate holding company (note iii)	**–**	48,717

* After elimination of unrealised profits

Notes:

(i) The above transactions were conducted in accordance with the terms and conditions mutually agreed by both parties.

(ii) As at 31 December 2012, the banking facilities guarantees were given by the Founder to PRC banks for credit facilities granted to subsidiaries of the Company and utilised to the extent of HK$75,136,000.

(iii) As at 31 December 2012, the banking facilities guarantees were given by the ultimate holding company to PRC banks for credit facilities granted to subsidiaries of the Company and utilised to the extent of HK$31,320,000.

(b) On 7 June 2013, the Company entered into a master asphalt pavement maintenance servicing agreement with Ordos Dongfang Road & Bridge Group Co., Ltd.** (鄂爾多斯市東方路橋集團股份有限公司) ("**Dongfang Ordos**"), a holding company of a Lutong Ordos and thus a connected person of the Company under the Rule 14A.11 of the Listing Rules. Pursuant to the agreement, the Company has agreed to provide asphalt pavement maintenance services through the Group to Dongfang Ordos and its subsidiaries (collectively as referred to the "**Dongfang Group**") for a period of three years from 1 January 2013 to 31 December 2015. Further details of the transaction were set out in the Company's prospectus dated 14 June 2013.

During the year, the Group did not provide any asphalt pavement maintenance services to the Dongfang Group.

** For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. RELATED PARTY TRANSACTIONS *(Continued)*

(c) On 7 June 2013, the Company entered into a master agreement on purchase of asphalt with Dongfang Ordos pursuant to which Dongfang Ordos has agreed to provide asphalt through Dongfang Group to the Group for a period of three years from 1 January 2013 to 31 December 2015. Further details of the transaction were set out in the Company's prospectus dated 14 June 2013.

During the year, the Group did not purchase any asphalt from the Dongfang Group.

The above transactions in respect of items of (b) and (c) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(d) Outstanding balances with related parties

(i) Details of the Group's amounts due from directors are included in note 25 to the financial statements.

(ii) Details of the Group's balances with joint ventures and associates are included in notes 23, 24 and 27 to the financial statements.

(e) In the opinion of the directors of the Company, the directors of the Company represented the key management personnel of the Group. Further details of directors' emoluments are included in note 9 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2013 and 2012, all the financial assets and liabilities of the Group and the Company were loans and receivables and financial liabilities at amortised cost, respectively.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2013 and 2012, the Group and the Company do not have any financial assets and liabilities measured at fair value.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarised below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate 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 following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings on interest expenses charged to the statement of profit or loss).

	Increase/ (decrease) in basis points	Increase/ (decrease) in the Group's profit (before tax HK$'000
2013		
RMB borrowings	**100**	**(571)**
RMB borrowings	**(100)**	**571**
2012		
RMB borrowings	100	(276)
RMB borrowings	(100)	276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The business of the Group is principally conducted in the PRC and most of the transactions are denominated in RMB, except for certain bank deposits which are denominated in United States dollars ("US$") and HK$. The Group has not hedged its foreign currency risk.

The following table demonstrates the sensitivity to a reasonably possible change in HK$ exchange rates against US$ and RMB, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in the Group's profit before tax HK$'000
2013		
If US$ weakens against HK$	**5**	**(1,541)**
If US$ strengthens against HK$	**(5)**	**1,541**
If RMB weakens against HK$	**5**	**(32,413)**
If RMB strengthens against HK$	**(5)**	**32,413**
2012		
If US$ weakens against HK$	5	4,574
If US$ strengthens against HK$	(5)	(4,574)
If RMB weakens against HK$	5	(11,841)
If RMB strengthens against HK$	(5)	11,841

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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 Group had five customers accounted for approximately 25% (2012: 40%) of all receivables owing at the end of the reporting period.

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. The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of financial assets disclosed in note 23. The Group evaluates the concentration of risk with respect to trade receivables as low, as a large number of diversified customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group aims to maintain flexibility in funding by keeping sufficient cash or committed credit lines available.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

2013

	Within one year or on demand HK$'000	**In the second to fifth years, inclusive HK$'000**	**Beyond five years HK$'000**	**Total HK$'000**
Trade payables	**79,163**	**–**	**–**	**79,163**
Financial liabilities included in other payables and accruals	**42,138**	**–**	**–**	**42,138**
Interest-bearing bank borrowings (Note)	**51,980**	**23,159**	**–**	**75,139**
	173,281	**23,159**	**–**	**196,440**

2012

	Within one year or on demand HK$'000	In the second to fifth years, inclusive HK$'000	Beyond five years HK$'000	Total HK$'000
Trade payables	73,739	–	–	73,739
Financial liabilities included in other payables and accruals	27,183	–	–	27,183
Dividends payable	4,964	–	–	4,964
Interest-bearing bank borrowings (Note)	83,812	8,142	–	91,954
Due to the ultimate holding company	4,350	–	–	4,350
Due to the immediate holding company	–	153,538	–	153,538
	194,048	161,680	–	355,728

Note: Included in interest-bearing bank borrowings is a term loan in the amount of HK$10,568,000 (2012: HK$14,088,000). The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

2013

	Within one year or on demand HK$'000	**In the second to fifth years, inclusive HK$'000**	**Beyond five years HK$'000**	**Total HK$'000**
Financial liabilities included in other payables and accruals	**2,615**	**–**	**–**	**2,615**
Guarantees given to banks in connection with facilities granted to subsidiaries (note 35)	**80,575**	**–**	**–**	**80,575**
	83,190	**–**	**–**	**83,190**

2012

	Within one year or on demand HK$'000	In the second to fifth years, inclusive HK$'000	Beyond five years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	5,099	–	–	5,099
Due to the immediate holding company	–	153,538	–	153,538
	5,099	153,538	–	158,637

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to equity owners of the parent plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, other payables and accruals, dividends payable and amounts due to the ultimate holding company and the immediate holding company less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2013 **HK$'000**	2012 HK$'000
Interest-bearing bank borrowings	**71,401**	85,733
Trade payables	**79,163**	73,739
Other payables and accruals	**70,510**	44,671
Dividends payable	**–**	4,964
Due to the ultimate holding company	**–**	4,350
Due to the immediate holding company	**–**	153,538
Less: Cash and cash equivalents	**(614,697)**	(130,862)
Net debt/(net cash)	**(393,623)**	236,133
Equity attributable to owners of the parent	**N/A**	220,585
Capital and net debt	**N/A**	456,718
Gearing ratio	**N/A**	51.7%

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

FOUR YEAR FINANCIAL SUMMARY

The consolidated results of Freetech Road Recycling Technology (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2013 and the consolidated assets, liabilities and equity of the Group as at 31 December 2013 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2010, 2011 and 2012 and of the assets, liabilities and non-controlling interests as at 31 December 2010, 2011 and 2012 has been extracted from the prospectus issued on 14 June 2013 in connection with the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited.

No financial statement of the Group for the year ended 31 December 2009 has been published.

The summary below does not form part of the audited financial statements.

RESULTS

	Year ended 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**628,709**	486,003	281,279	233,145
Profit before tax	**219,995**	193,003	83,065	37,539
Income tax expense	**(39,944)**	(42,630)	(20,915)	(10,725)
Profit for the year	**180,051**	150,373	62,150	26,814
Attributable to:				
Owners of the parent	**182,526**	146,593	62,150	26,814
Non-controlling interests	**(2,475)**	3,780	–	–

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**232,508**	178,522	121,928	98,159
Current assets	**1,236,565**	457,916	319,593	132,693
Total assets	**1,469,073**	636,438	441,521	230,852
Current liabilities	**216,131**	215,212	209,915	163,566
Non-current liabilities	**38,727**	178,477	162,296	5,238
Total liabilities	**254,858**	393,689	372,211	168,804
Non-controlling interests	**20,307**	22,164	–	–
Total equity	**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