

公路醫生[®]

Freetech

英達科技

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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock Code 股份代號: 6888

ANNUAL REPORT 年報 2015





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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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands Share Register and Transfer Office

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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Construction Bank (Asia)
Corporation Limited
Hang Seng Bank

Company Website Address

www.freotech-holdings.hk



FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

	Year ended 31 December		
	2015 HK\$'000	2014 HK\$'000	Increase/ (decrease)
Revenue	616,641	390,434	57.9%
Gross profit	185,848	162,007	14.7%
Profit attributable to owners of the Company	64,502	58,497	10.3%
Earnings per share (Basic) (HK cents)	6.07	5.42	12.0%
Proposed final dividend per share (HK cents)	1.8	1.5	20.0%

FINANCIAL POSITION

	31 December		
	2015 HK\$'000	2014 HK\$'000	Increase/ (decrease)
Time deposits, pledged bank deposits, structured bank deposits and bank balances and cash	479,035	353,903	35.4%
Bank borrowings	72,325	634	11,307.7%
Equity attributable to owners of the Company	1,142,935	1,169,647	(2.3%)

KEY FINANCIAL RATIOS

Gross profit margin	30.1%	41.5%	(27.5%)
Net profit margin	10.7%	13.8%	(22.5%)
Return on assets	3.9%	4.0%	(2.5%)
Current ratio	2.8	7.5	(62.7%)





**CHAIRMAN'S
STATEMENT**

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Freetech Road Recycling Technology (Holdings) Limited (the "Group") for the financial year ended 31 December 2015.

PERFORMANCE

In 2015 the Group saw a steady growth in its business and the formation of a strategic presence in China. Thanks to the government's continuing promotion of green economy, the Group continued to improve in its business. For the year, the Group recorded a total revenue of HK\$616.6 million and a profit attributable to owners of the Company of HK\$64.5 million, respectively, representing an increase of approximately 57.9% and 10.3%, respectively, as against the same period of 2014. The Group remained a market leader using "Hot-in-Place" recycling technology in the asphalt pavement maintenance industry in the People's Republic of China ("PRC").

OUTLOOK

In 2016, the Group's business greatly benefit from policies. The newly issued 13th Five-Year Plan pointed out that the transport system shall stick to a green development — highway management and maintenance projects would prefer green and environment-friendly technologies, and the recycling rate of materials was also one of the inspection criteria. Under the circumstances, the Group as a leading provider of recycling maintenance technology will leverage its brand awareness and expertise to strengthen its position and enlarge its share in both the maintenance equipment and maintenance project markets.

During the 13th Five-Year Plan period, the layout and pattern of urbanization will be further optimized, which will bring new opportunities — the demand for intercity and municipal road maintenance will increase significantly. Meanwhile, it is rigorous that the municipal road maintenance projects require systematic, flexible and green services. Leveraging its integrated solution covering "detection, planning, equipment and construction", modularized equipment and 100% recycling of materials, the Group has taken the lead in the market. Besides, the Group has been following the public-private partnership ("PPP") model in the implementation of municipal road maintenance projects. The implementation of PPP project in Jurong City of Jiangsu Province started in 2016.

With the launch of the "One Belt, One Road" Strategy, the PRC government will further encourage export in the infrastructures-related manufacturing sectors. So far the Group has established strategic partnerships with multiple large-sized state-owned construction enterprises and listed companies in the PRC with extensive overseas resources, via which it has cooperated with foreign governments to export both of its equipment and construction services for the year. In addition, it also plans to conduct international cooperation and M&As to expand its global presence.

The deepening ownership reform of state-owned enterprises has also provided an option for the Group's expansion. Last year, the Group acquired a stake in the maintenance subsidiary of Tianjin Expressway Group Company Limited* (天津高速公路集團有限公司) and in 2016, it plans to invest in large-sized state-owned maintenance enterprises, which will not only bring high return on investments, but also improve the Group's presence in the country's express highway maintenance sector.

In the future, the Group will build on its existing business and identify new growth points and development platforms to contribute more to the society and its 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 extend my gratitude to all of our business partners, customers and shareholders for their strong support.

Chairman

Mr. Sze Wan Pan

23 March 2016

* For identification purpose only



**MANAGEMENT
DISCUSSION AND ANALYSIS**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2015, although the economy of the PRC saw a change from a rapid growth to a normal stable growth, the PRC government actively encouraged a green economy emphasizing green, low carbon emission and sustainable development, and therefore the road recycling technology industry maintained a satisfactory development momentum.

During the year under review, the existing businesses of the Group recorded an increase in revenue and profit mainly due to the organic growth of the Company's asphalt pavement maintenance ("APM") services segment, the consolidated results of Tianjin Expressway Maintenance Company Limited (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance") since September 2015, and the sale of the Company's modular series equipment. The Group continued to be a leading integrated solution provider using "Hot-in-Place" technology in the APM industry in the PRC. As of 31 December 2015, the Group had a total of eleven (2014: ten) joint ventures and associates engaging in the provision of APM services and twelve franchisees (2014: twelve) to promote the Group's "Hot-in-Place" technology in certain cities in the PRC.

In 2015, the Group's operating revenue was approximately HK\$616.6 million, representing an increase of approximately 57.9% as against 2014. Total profit attributable to owners of the Company was approximately HK\$64.5 million, representing an increase of approximately 10.3%, as against 2014. In addition, the Group's operating cash flow was significantly improved from cash outflow of HK\$18.8 million in 2014 to cash inflow of HK\$69.0 million in 2015.

Asphalt Pavement Maintenance Services

During the year under review, we remained a leading service provider in the PRC market using "Hot-in-Place" recycling technology in the provision of APM services. As a result of the organic growth during the year, the Group completed 3.9 million square meters of APM services (2014: 3.1 million square meters), representing an increase of 25.8% as against 2014. In addition, as a result of the completion of capital injection into Tianjin Expressway Maintenance on 31 August 2015, the results of Tianjin Expressway Maintenance were consolidated into the financial statements of the Group from September 2015 onwards. The APM services segment recorded a revenue of approximately HK\$535.7 million, representing an increase of 59.6% as against 2014.

APM Equipment

During the year under review, as a result of the Group's success in sale of its modular series equipment and more revenue generated from repair and maintenance of standard series previously sold, our APM equipment segment generated a revenue of HK\$80.9 million, representing an increase of 48.0% as against 2014. In light of the above, the management of the Company believes that the Group has maintained its position as the leading APM equipment provider in PRC market.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

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

New Patents

The Group continued to invest significant resources in our research and development efforts. As of 31 December 2015, we had registered 111 patents (31 December 2014: 97), of which 11 were invention patents (31 December 2014: 11), 87 were utility model patents (31 December 2014: 74) and 13 were design patents (31 December 2014: 12), and we had 11 pending invention patent applications (31 December 2014: 14 patent pending applications, of which 5 invention patents, 8 utility model patent and 1 design patent).

During the year under review, the Group consistently enhanced its investment in research and development, further strengthening its research and development capabilities, and enabling it to overcome certain technological limitations in the APM service industry. In order to provide higher quality road maintenance services and reduce costs, the Group upgraded its existing modular series equipment to improve efficiency and reduce its dependence on labour.

The Company entered into a cooperation agreement with the School of Management of University of Chinese Academy of Sciences (中國科學院大學管理學院) (“Management School UCAS”), pursuant to which the UCAS Freetech Ecological Science and Technology Research Centre (“UCAS Freetech Centre”) was jointly set up by the Company and Management School UCAS and was officially unveiled in Beijing on 28 May 2015. UCAS Freetech Centre will conduct research on the areas of energy saving, environmental protection and green economy in transportation and municipal construction areas, as well as incubate and develop new technologies and products and provide application analysis on new technologies and products.

Others

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



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In the coming year, we have identified valuable opportunities for the Group's development. First, while China's demand for APM continues to expand, the penetration rate of the recycling technology is relatively low. Second, as the first year of China's 13rd Five-Year Plan, the year 2016 will see a massive demand for intercity and municipal road renovation and maintenance due to the continuing urbanization. Third, the Group's 11 joint ventures including Tianjin Expressway Maintenance will gradually migrate from traditional APM method into the Group's "Hot-in-Place" recycling technology in order to strengthen their profitability and will result in a better return and enhance influences of the "Hot-in-Place" recycling technology in different regions. Fourth, the cooperation agreement signed among the Group, Nanjing Lishui Economy Technology Development Company (南京溧水經濟技術開發總公司) and Jurong City Housing and Urban Rural Development Bureau (江蘇省句容市住房和城鄉建設局) will be implemented this year as the Group successfully won a bid for the public-private partnership road construction project ("PPP Project") in Jurong City. The Group and Jurong Municipal Construction Investment Co., Ltd.* (句容市城市投資建設有限責任公司) are responsible for the investment, management and operation of the PPP Project. Fifth, the strategic cooperation between the Company, other listed company and several potential large-sized state-owned enterprises will help market the recycling maintenance equipment and projects overseas.

As a leading provider of the "Hot-in-Place" recycling technology in the APM sector and a provider of one-stop solution covering "detection, planning, equipment and construction", the Group will leverage its competitive advantages and the favorable policies to achieve a healthy growth. The Group plans to enhance its market position, enter new markets and enlarge its share in existing markets by the following means: first, it will increase its investment to set up more sales offices in different cities and dispatch more salespersons to maintain its leading position in the provision of APM services; second, it will increase its investment to add equipment and staff to its detecting and planning departments, so as to enhance its one-stop solution; third, it will focus on the cities which will hold major events to gain and complete projects of high awareness; fourth, it will grasp the opportunities in the wave of state-owned enterprise reform to acquire more maintenance companies in the express highway sector; fifth, it will appoint more local APM service providers as its franchisees; sixth, it will further optimize its techniques and technologies to lower the construction costs; seventh, it will leverage its state-owned partners' overseas channels to expand the international APM equipment and services market.

Looking into the future, the Group holds confidence in its business prospects and will strive to provide higher returns for its shareholders with the principle of "Efficient use of technology to create multi-win situations" ("善用科技, 共創多贏").

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

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

The following is a description of the Group’s operating activities during the year, with comparisons against 2014.

1. Revenue:

a. APM Services

	Year ended 31 December				
	2015		2014		Increase/ (decrease)
	Area serviced (square meters '000)	Area serviced (square meters '000)	Area serviced (square meters '000)	Area serviced (square meters '000)	
Revenue	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
“Hot-in-Place” Projects	366,660	3,926	335,738	3,106	9.2%
Non-“Hot-in-Place” Projects	169,049	–	–	–	N/A
Total	535,709		335,738		59.6%

	Year ended 31 December				
	2015		2014		Increase/ (decrease)
	Margin	Margin	Margin	Margin	
Gross profit	HK\$'000	Margin	HK\$'000	Margin	
“Hot-in-Place” Projects	134,667	36.7%	132,855	39.6%	1.4%
Non-“Hot-in-Place” Projects	7,987	4.7%	–	–	N/A
Total	142,654	26.6%	132,855	39.6%	7.4%

Revenue and gross profit for this segment both increased as compared to 2014. Despite the total area serviced for “Hot-in-Place” projects increased by 25.8% from 3.1 million square meters in 2014 to 3.9 million square meters in 2015, the revenue was increased by 9.2% as more projects were conducted on highways and expressway which have lower selling price. In addition, the revenue of Tianjin Expressway Maintenance (were mainly involved in non-“Hot-in-Place” projects) were consolidated into the Group from September 2015 onward as a result of the completion of capital injection into Tianjin Expressway Maintenance on 31 August 2015, revenue in 2015 was increased by 59.6% as compared to 2014.

The gross profit margin in this segment decreased from 39.6% in 2014 to 26.6% in 2015. This was mainly due to revenue contributed from Tianjin Expressway Maintenance was non-“Hot-in-Place” projects which have lower gross profit margin. In addition, as more “Hot-in-Place” projects were conducted on highways and expressways which have lower selling price, the gross profit margin was decreased from 39.6% in 2014 to 36.7% in 2015. Overall, the gross profit margin in this segment was decreased from 39.6% in 2014 to 26.6% in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

b. APM Equipment

	Year ended 31 December				
	2015		2014		Increase/ (decrease)
	HK\$'000	units/ sets	HK\$'000	units/ sets	
Revenue					
Standard series	51,028	35	49,811	38	2.4%
Modular series	23,388	1	–	–	N/A
Repair and maintenance	6,516	N/A	4,885	N/A	33.4%
Total	80,932		54,696		48.0%

	2015		2014		Increase/ (decrease)
	HK\$'000	Margin	HK\$'000	Margin	
Gross profit					
Standard series	24,347	47.7%	25,978	52.2%	(6.3%)
Modular series	15,480	66.2%	–	N/A	N/A
Repair and maintenance	3,367	51.7%	3,174	65.0%	6.1%
Total	43,194	53.4%	29,152	53.3%	48.2%

Revenue for the APM equipment segment for 2015 was increased by 48.0% as compared to 2014. This increase was primarily due to the sale of modular series and more revenue generated from repair and maintenance of the standard series previously sold.

Overall gross profit margin for this segment was relatively stable.

2. Other Gains and Losses

Other gains and losses for the year under review were increased by approximately HK\$2.8 million, from HK\$0.3 million in 2014 to HK\$3.1 million in 2015, primarily due to the net effect of (i) recognition of impairment loss of goodwill; (ii) decrease in impairment of trade receivables; (iii) decreased in net foreign exchange losses; and (iv) decreased in fair value gain from measurement of equity interest previously held in acquired subsidiaries to fair value.

3. Selling and Distribution Costs

Selling and distribution costs for the year under review were decreased by approximately HK\$0.7 million, from HK\$23.2 million in 2014 to HK\$22.5 million in 2015 which was relatively stable.

4. Administrative Expenses

Administrative expenses were increased by 29.6% as against 2014, primarily due to the consolidation of the full year results of the subsidiaries acquired in 2014 and the results of Tianjin Expressway Maintenance from 1 September 2015 to 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group's share of profits from joint ventures was approximately HK\$2.6 million in 2015. In 2014, the Group's share of losses from joint ventures was approximately HK\$5.4 million.

In 2014, the Group's share of losses from associates was approximately HK\$1.4 million.

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

6. Finance Costs

Finance costs were decreased by approximately HK\$1.3 million, or approximately 50.0%, from HK\$2.6 million in 2014 to HK\$1.3 million in 2015, primarily due to the Group's bank loans being settled in 2014 by the proceeds from the Company's initial public offering in the second half of 2013 and new loans were drawn down in 2015.

7. Taxation

Income tax expenses were increased by approximately HK\$0.4 million, or approximately 3.5%, from approximately HK\$11.5 million in 2014 to approximately HK\$11.9 million in 2015 which is in line with the trend in the profit before taxation for the year under review.

8. Profit

Profit attributable to owners of the Company was increased by approximately HK\$6.0 million, or approximately 10.3%, from approximately HK\$58.5 million in 2014 to approximately HK\$64.5 million in 2015, primarily due to the net effect of (i) the increase in revenue from the APM services segment due to the increased in total area serviced for "Hot-in-Place" projects and the consolidated results of Tianjin Expressway Maintenance; (ii) the increase in revenue from the APM equipment segment due to the sale of modular series; (iii) decrease in gross profit margin of APM services segment due to non-"Hot-in-Place" projects contributed from Tianjin Expressway Maintenance and more "Hot-in-Place" projects were conducted on highway and expressway which have lower gross profit margin; and (iv) the increase in administrative expenses as a result of consolidated the results of subsidiaries acquired in 2014 and 2015.

9. Financial Position

As at 31 December 2015, the total equity of the Group amounted to approximately HK\$1,240.9 million (2014: HK\$1,214.2 million). This remained stable due to the net effect of (i) increased in net profit for the year of 2015; (ii) distribution of dividend; (iii) acquisition of subsidiaries; and (iv) changes in foreign currency translation reserve as a result of the devaluation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars.

The Group's net current assets as at 31 December 2015 amounted to approximately HK\$815.6 million (2014: HK\$876.7 million). The current ratio, which is the amount of the current assets divided by the amount of the current liabilities as at 31 December 2015, was 2.8 (31 December 2014: 7.5). The decrease in the net current assets and current ratio was mainly due to the consolidation of the financial results of Tianjin Expressway Maintenance, which has lower current ratio when compared to that of the Group, into the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Liquidity and Financial Resources and Capital Structure

As at 31 December 2015, the Group's bank balances and cash, time deposits, pledged bank deposits and structured bank deposits amounted to approximately HK\$479.0 million (31 December 2014: HK\$353.9 million). The increase was primarily due to the net effect of net cash generated from operating activities, investment in joint ventures, net cash inflow on acquisitions of subsidiaries and bank borrowing raised. As at 31 December 2015, the bank borrowings of the Group amounted to HK\$72.3 million (31 December 2014: HK\$0.6 million). As at 31 December 2014 and 2015, the Group was in a net cash position.

Due to the consolidation of the financial results of Tianjin Expressway Maintenance into the Group, the trade receivables balance was increased accordingly from HK\$602.9 million as of 31 December 2014 to HK\$714.6 million as of 31 December 2015. If excluding the trade receivables balance of Tianjin Expressway Maintenance as at 31 December 2015 of HK\$140.5 million, the trade receivables balance was decreased by HK\$28.8 million from HK\$602.9 million as at 31 December 2014 to HK\$574.1 million as at 31 December 2015. As at latest practicable date, third party customers had settled trade receivables amounting to HK\$140.9 million (RMB118.0 million).

Though the Group does not have any collateral over most of the receivables, the management considers that there is no recoverability problem as the remaining amounts are due from the local PRC government authorities. 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 widen its customer base.

As at 31 December 2015, the Group's liquidity position remained strong and the management of the Company believes that this will enable the Group to expand in accordance with their plans. The Group strives to efficiently use its financial resources and adopts a prudent financial policy in order to maintain a healthy capital ratio and support its business expansion requirements.

11. Interest-Bearing Bank Borrowings

As at 31 December 2015, the Group had total debt of HK\$72.3 million which was secured interest-bearing bank borrowings. As at 31 December 2014, the Group had total debt of HK\$0.6 million which unsecured interest-bearing bank borrowings.

As at 31 December 2015, the secured interest-bearing bank borrowings were secured by pledge of bank balances of approximately HK\$125.2 million.

The maturity profile of the interest-bearing bank borrowings as at 31 December 2014 and 2015 were repayable within one year or on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2015 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

	Net Proceeds		
	Available HK\$ million	Utilised HK\$ million	Unutilised HK\$ million
Investment in research and development activities	137.4	137.4	–
Establishing joint ventures and expanding APM service teams	137.4	75.7	61.7
Manufacturing APM equipment and expanding our APM service teams	103.1	42.1	61.0
Acquisitions of other APM service providers	103.0	27.8	75.2
Constructing new production facility	68.7	57.2	11.5
Establishing sales offices in new markets and marketing expenses	68.7	44.7	24.0
General corporate purposes and working capital requirements	68.7	68.7	–
	<u>687.0</u>	<u>453.6</u>	<u>233.4</u>

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

13. Material Acquisitions and Disposals

On 30 June 2015, Freetech Smart Road Recycling Engineering Investment Limited ("Freetech Smart Road"), an indirect subsidiary, in which the Company owns 51% equity interest, and 天津高速公路集團有限公司 (Tianjin Expressway Group Co., Ltd.) ("Tianjin Expressway Group"), which was the existing shareholder of Tianjin Expressway Maintenance, entered into a capital injection agreement, pursuant to which Freetech Smart Road agreed to acquire 55% equity interests in Tianjin Expressway Maintenance by way of subscribing for an additional registered capital of RMB24,444,400 (equivalent to approximately of HK\$30,556,000) at the total consideration of RMB46,802,400 (equivalent to approximately of HK\$58,503,000) (representing RMB24,444,400 (equivalent to approximately of HK\$30,556,000) as payment for the additional registered capital and RMB22,358,000 (equivalent to approximately of HK\$27,947,000) as capital reserve of Tianjin Expressway Maintenance). The investment consideration for the acquisition was fully paid in cash on 12 August 2015. Upon completion on 31 August 2015, the registered capital of Tianjin Expressway Maintenance was RMB44,444,400 and Tianjin Expressway Maintenance was owned as to 55% and 45% equity interests by Freetech Smart Road and Tianjin Expressway Group respectively. On the same day, a revised Articles of Association of Tianjin Expressway Maintenance was approved by the board of directors of Tianjin Expressway Maintenance, and the Group obtained the control in Tianjin Expressway Maintenance, and Tianjin Expressway Maintenance became a non-wholly owned subsidiary of the Group. Tianjin Expressway Maintenance is principally engaged in 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 Tianjin, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

On 22 December 2015, the Group entered into a share purchase agreement with its joint venture partner, to acquire a 25% equity interest in Futech Road Recycling Engineering Limited ("Futech Road"), which was previously a 50% owned joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with approximately HK\$13,388,000 paid at the acquisition date. Together with the 50% equity interest held before the acquisition, the Group's interest in Futech Road increased to 75% after the acquisition. On the same day, the Group obtained the control in Futech Road, and Futech Road became a subsidiary of the Group. The acquisition was completed on 22 December 2015. Futech Road 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 Fujian, PRC.

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

14. Capital Commitments and Contingent Liabilities

The Group's capital commitments as at 31 December 2015 are set out in note 33 to the financial statements. As at 31 December 2015, the Group did not have any material contingent liabilities.

15. Financial Risk Management

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

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

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

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

16. Employees and Remuneration

As at 31 December 2015, the Group had a total of 667 full time employees (as at 31 December 2014: 550). 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	<i>Chairman, Chief Executive Officer and Executive Director</i>
Ms. Sze Wan Nga	<i>Executive Director</i>
Mr. Zhang Yifu	<i>Executive Director</i>
Mr. Chan Kai King	<i>Executive Director</i>
Mr. Yeung Chin Chiu	<i>Non-executive Director</i>
Mr. Wang Lei	<i>Non-executive Director</i>
Ms. Yeung Sum	<i>Independent Non-executive Director</i>
Mr. Tang Koon Yiu Thomas	<i>Independent Non-executive Director</i>
Mr. Lau Ching Kwong	<i>Independent Non-executive Director</i>

DIRECTORS — BIOGRAPHIES

Mr. Sze Wai Pan, aged 50, 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's degree in science (with distinction) from The University of Warwick, the United Kingdom in July 1991, and a master's degree in arts from the 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 received 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 111 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 42, 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 62, 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.

Mr. Chan Kai King, aged 48, 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yeung Chin Chiu, aged 52, 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 39, 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's degree in 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 42, 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 68, 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 the vice chairman of Greater China Leapfrog Teaching Foundation Limited and is 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 and 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, the listing of which was withdrawn in March 2005) and Elec & Eltek International Company Limited (a company currently 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's degree in science, 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.

Mr. Lau Ching Kwong, aged 73, joined in August 2012 as an independent non-executive director of the Company. He is also a member of the audit committee and the nomination committee of the Company. Mr. Lau has been an executive director of transportation of AECOM Asia Co. Ltd (艾奕康有限公司) since June 2003, mainly focusing on consulting work for infrastructure constructions in the PRC. Mr. Lau worked in the Hong Kong Government for over thirty years, mainly responsible for the design and construction of public works, and he served many roles including the chief engineer of Tsing Ma Bridge, the deputy director of Highways Department (路政署), the director of Civil Engineering and Development Department (土木工程署), respectively. Mr. Lau obtained a doctorate degree in engineering from Tsinghua University (清華大學) in June 1998, a master's degree majoring in bridge engineering in December 1970 from the 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Jiang Yong He, aged 56, 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's degree in July 1982, majoring in mining equipment.

Mr. Huang Liang Zhong, aged 53, 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 39, is the chief financial officer and company secretary of our Company. Mr. Lim joined our Group in December 2011 as financial controller of our Group and is primarily responsible for the finance and accounting affairs of our Group. He has over nine years of experience in finance and accounting. Prior to joining our Group, between October 2006 and May 2011, Mr. Lim worked in Ernst & Young as a senior accountant and then a manager, mainly responsible for providing supervision of audit engagement. Mr. Lim received a bachelor of business degree in November 2001 and a master's of business law in November 2005 from Monash University. Since July 2006, Mr. Lim has been an associate member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Annual Report for the year ended 31 December 2015.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate 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 a check and balance function. There are also three independent non-executive directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power safeguards in place to enable the Company to make and implement decisions promptly and effectively.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employee 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
Mr. Wang Lei

Independent non-executive Directors:

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

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

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

Chairman and Chief Executive Officer

According to provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate 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

During the year ended 31 December 2015, 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 of independent non-executive directors.

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

CORPORATE GOVERNANCE REPORT

Directors' Continuous Professional Development

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

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

4. BOARD COMMITTEES

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

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

Remuneration Committee

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

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

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

CORPORATE GOVERNANCE REPORT

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	<i>(Independent non-executive director)</i>	<i>(Chairman)</i>
Ms. Yeung Sum	<i>(Independent non-executive director)</i>	
Ms. Sze Wan Nga	<i>(Executive director)</i>	

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

Details of directors' remuneration are set out in note 12 to the financial statements. Details of five highest paid employees are set out in note 12 to the financial statements. In addition, the remuneration of the two (2014: three) senior management fell within the band of less than HK\$1,000,000 and one senior management (2014: Nil) fell within the band of HK\$1,000,001 to HK\$1,500,000.

Nomination Committee

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

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

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

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

Members of the committee are:

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

CORPORATE GOVERNANCE REPORT

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	<i>(Independent non-executive director)</i>	<i>(Chairman)</i>
Mr. Tang Koon Yiu Thomas	<i>(Independent non-executive director)</i>	
Mr. Lau Ching Kwong	<i>(Independent non-executive director)</i>	

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

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held during the year under review. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2015 and for the year ended 31 December 2015, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, internal control systems and continuing connected transactions of the Company.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2016.

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	1/1		
Mr. Zhang Yifu	4/4			
Mr. Chan Kai King	4/4			
Non-executive Directors:				
Mr. Yeung Chin Chiu	4/4			
Mr. Wang Lei	4/4			
Independent Non-executive Directors:				
Ms. Yeung Sum	4/4	1/1		2/2
Mr. Tang Koon Yiu Thomas	4/4	1/1	1/1	2/2
Mr. Lau Ching Kwong	4/4		1/1	2/2

6. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

- 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;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review and monitor the training and continuous professional development of the directors and senior management; and
- to develop, review and monitor the code of conduct applicable to the directors and employees.

7. FINANCIAL REPORTING

The directors of the Company 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.

CORPORATE GOVERNANCE REPORT

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. COMPANY SECRETARY

The company secretary of the Company confirmed that he has complied with all training requirements of the Listing Rules during the year under review.

10. AUDITORS' REMUNERATION

For the year, Deloitte Touche Tohmatsu charged the Group HK\$1,480,000 for the provision of audit services, and other certified public accountant firms charged HK\$402,000 for the provision of audit services to the Company's subsidiaries located in Hong Kong and China. Also, Deloitte Touche Tohmatsu charged the Group HK\$1,500,000 for the provision of non-audit services.

11. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

Procedures for putting forward proposals at general meetings

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

CORPORATE GOVERNANCE REPORT

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.

12. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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 2015.

1. PRINCIPAL ACTIVITIES

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

2. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2015 is set out in note 7 to the financial statements. The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

3. RESULTS AND DIVIDENDS

The Group's profits for the year ended 31 December 2015 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 42 to 121.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2015.

The directors recommended the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2015. The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

4. FIVE YEARS FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 122. This summary does not form part of the audited financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

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

6. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2015 are set out in note 27 to the financial statements.

7. SHARE CAPITAL

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

REPORT OF THE DIRECTORS

8. PRE-EMPTIVE RIGHTS

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

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

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

10. RESERVES

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

11. DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK\$2,000.5 million (2014: HK\$1,988.1 million), of which approximately HK\$19.4 million (2014: HK\$16.2 million) was proposed as a final dividend for the year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

12. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 44.2% of the total sales for the year and sales to the largest customer included therein amounted to 27.3%. Purchases from the Group's five largest suppliers accounted for 24.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.7%.

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

REPORT OF THE DIRECTORS

13. DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

Mr. Yeung Chin Chiu
Mr. Wang Lei

Independent Non-executive Directors:

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

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Sze Wai Pan, Mr. Wang Lei and Mr. Tang Koon Yiu Thomas are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules and, as at the date of this report, still considers them to be independent.

14. DIRECTORS' SERVICE CONTRACTS

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

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

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

15. DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS

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

As at 31 December 2015, 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
	Number of shares held	Number of share held awarded	Number of underlying shares held under equity derivatives				
Mr. Sze Wai Pan ("Mr. Sze")	–	–	–	524,965,260 ⁽¹⁾	524,965,260	48.65%	
Ms. Sze Wan Nga ("Ms. Sze")	–	–	200,000	29,640,000 ⁽²⁾	29,840,000	2.77%	
Mr. Zhang Yifu	2,300,000	166,667	200,000	–	2,666,667	0.25%	
Mr. Chan Kai King	2,300,000	166,667	200,000	–	2,666,667	0.25%	
Ms. Yeung Sum	–	–	100,000	–	100,000	0.01%	
Mr. Tang Koon Yiu Thomas	–	–	100,000	–	100,000	0.01%	
Mr. Lau Ching Kwong	–	–	100,000	–	100,000	0.01%	

Note:

- Mr. Sze is the beneficial owner of all the issued share capital of Freetech (Cayman) Ltd. ("Freetech Cayman"), Freetech (BVI) Limited ("Sze BVI") and Freetech Technology Limited ("Freetech Technology") and therefore is deemed to be interested in a total of 524,965,260 shares of the Company held by Freetech Cayman, Sze BVI and Freetech Technology.
- Ms. Sze is the beneficial owner of all the issued share capital of Intelligent Executive Limited ("Intelligent Executive") and therefore is deemed to be interested in 29,640,000 shares of the Company held by Intelligent Executive.

REPORT OF THE DIRECTORS

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

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

Save as disclosed above, as at 31 December 2015, none of the directors nor the chief executive of the Company had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

17. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, so far as is known to the directors of the Company, the following persons or corporations (other than directors or the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company:

Name of shareholder	Capacity	Number of shares or underlying shares held in the Company	Approximate percentage of existing issued share capital of the Company
Freetech Technology ⁽¹⁾	Interest in controlled corporation	524,965,260	48.65%
Sze BVI ⁽¹⁾	Interest in controlled corporation	524,965,260	48.65%
Freetech Cayman ⁽¹⁾	Beneficial owner	524,965,260	48.65%
China International Capital Corporation Limited ⁽²⁾	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund GP, L.P. ⁽²⁾	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund I, L.P. ⁽²⁾	Interest in controlled corporation	58,219,200	5.40%
Future Blossom Investment Limited ⁽²⁾	Beneficial owner	58,219,200	5.40%

Notes:

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

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2015, the directors of the Company are not aware of any other persons (other than the directors of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above) who held any interests or short positions in the shares, or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

18. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 7 June 2013 (the "Share Option Scheme") to provide incentives to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, direct or indirect shareholders, business or joint venture partners, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries) for their contribution to the long term growth of the Group and to enable the Company to attract and retain high caliber employees.

Movement of the share options under the Share Option Scheme for the year ended 31 December 2015 are as follows:

Name of participants	Options	Granted during the year	Forfeited during the year	Options	Date of Grant	Exercise period	Exercise price per share	Weighted
	held at 1 January 2015			held at 31 December 2015				average share price immediately preceding the exercise date
Directors								
Sze Wan Nga	100,000	-	-	100,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Sze Wan Nga	100,000	-	-	100,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Zhang Yifu	100,000	-	-	100,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Zhang Yifu	100,000	-	-	100,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Chan Kai King	100,000	-	-	100,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Chan Kai King	100,000	-	-	100,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Yeung Sum	50,000	-	-	50,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Yeung Sum	50,000	-	-	50,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Tang Koon Yiu Thomas	50,000	-	-	50,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Tang Koon Yiu Thomas	50,000	-	-	50,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Lau Ching Kwong	50,000	-	-	50,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
Lau Ching Kwong	50,000	-	-	50,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
Continuous contract employees								
In aggregate	2,035,000	-	-	2,035,000	16/10/2014	16/10/2015-15/10/2017	HK\$2.50	N/A
In aggregate	2,035,000	-	(15,000)	2,020,000	16/10/2014	16/10/2017-15/10/2019	HK\$2.75	N/A
	<u>4,970,000</u>	<u>-</u>	<u>(15,000)</u>	<u>4,955,000</u>				

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

REPORT OF THE DIRECTORS

19. SHARE AWARD SCHEME

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

In connection with the implementation of the Share Award Scheme, the Board may from time to time cause to be paid sufficient funds out of the Group's resources to the trustee for the purchase of Awarded Shares and instruct the trustee to purchase such shares on The Stock Exchange of Hong Kong Limited and to hold them in trust for the benefit of the employees on and subject to the terms and conditions of the scheme rules and the trust deed of the Share Award Scheme. The trustee shall not exercise any voting right attached in respect of any Awarded Shares held in trust by it under the Share Award Scheme (including but not limited to the returned shares, any bonus shares or scrip shares derived therefrom).

Subject to the provisions of the Share Award Scheme, the Board may, from time to time, grant such number of Awarded Shares to any Selected Employee at no consideration on and subject to such terms and conditions as it may in its absolute discretion.

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

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

REPORT OF THE DIRECTORS

Details of the Awarded Shares awarded and unvested as at 31 December 2015 are set out below:

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

Movements of the Awarded Shares under the Share Award Scheme for the year ended 31 December 2015 are as follows:

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

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

20. DEED OF NON-COMPETITION

The controlling shareholders of the Company, being Freetech Cayman, Sze BVI, Freetech Technology and Mr. Sze (together, the "Controlling Shareholders"), have confirmed to the Company of their compliance with the terms of the non-competition undertaking provided to the Company under a deed of non-competition dated 7 June 2013 ("Deed"). The independent non-executive directors of the Company have reviewed the confirmation given by the Controlling Shareholders and confirmed that all the undertaking under the Deed have been complied with by the Controlling Shareholders and duly enforced during the year ended 31 December 2015 and up to the date of the Annual Report. None of the new opportunities in any business, which is or may be in competition with the business of any member of the Company and its subsidiaries, that have been referred from any of our Controlling Shareholders under the Deed has been rejected by the Company during the year ended 31 December 2015 and up to the date of the Annual Report.

REPORT OF THE DIRECTORS

21. CONNECTED TRANSACTIONS

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

The table below sets out the annual caps and the actual transaction amounts of those non-exempt continuing transactions in 2015:

Connected transactions	Connected person	Annual cap		Actual transaction amount	
		(RMB'000)	Approx. (HK\$'000)	(RMB'000)	Approx. (HK\$'000)
Provision of APM services	Ordos Dongfang Road & Bridge Group Co., Ltd.* (鄂爾多斯市東方路橋集團股份有限公司) and its Subsidiaries ("Dongfang Group")	37,000	46,021	23,472	29,194
Purchase of asphalt	Dongfang Group	39,000	48,508	–	–

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

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

REPORT OF THE DIRECTORS

Furthermore, as disclosed in the announcement of the Company dated 31 August 2015 in relation to the completion of capital injection in the registered capital of Tianjin Expressway Maintenance in accordance with the terms and conditions of the capital injection agreement of Freetech Smart Road Recycling Engineering Investment Limited dated 30 June 2015 (the "Capital Injection Completion") (the "Completion Announcement"), prior to the Capital Injection Completion, Tianjin Expressway Maintenance and Tianjin Expressway Group (which owned the entire equity interests in Tianjin Expressway Maintenance prior to the Capital Injection Completion) and/or its wholly-owned subsidiaries and associates entered into certain road maintenance services agreements in relation to ongoing transactions conducted on a regular and continuing basis before Tianjin Expressway Group and its wholly-owned subsidiaries and associates become connected persons of the Company. Such agreements and the transactions contemplated thereunder have become continuing connected transactions of the Company under the Listing Rules upon the Capital Injection Completion, in respect of which the Completion Announcement was published to disclose such agreements and the transactions contemplated thereunder on 31 August 2015. Details of such agreements and actual transaction amounts in 2015 are summarised below:

Connected person	Date of the service agreement	Services period	Actual transaction amount (RMB'000) (HK\$'000)		Basis for determining the consideration	Terms of the relevant service agreement
Tianjin Xinyu Expressway Co. Ltd.* (天津鑫宇高速公路 有限責任公司)	29 December 2014	1 January 2015 – 31 December 2015	164	204	With reference to market price	Note (1)
Tianjin Expressway Group	30 December 2014	1 January 2015 – 31 December 2015	96,438	119,950	With reference to market price	Note (2)
Tianjin Xinzhan Expressway Co. Ltd.* (天津新展高速公路有限公司)	15 March 2015	15 March 2015 – 14 March 2016	1,439	1,790	With reference to market price	Note (1)
Tianjin Expressway Group	26 May 2015	119 days	21,703	26,994	With reference to market price	Note (3)
Tianjin Expressway Group	21 May 2015	119 days	26,823	30,875	With reference to market price	Note (3)
Tianjin Expressway Group	23 May 2015	119 days	26,805	33,340	With reference to market price	Note (3)
Tianjin Expressway Group	23 May 2015	112 days	24,409	30,360	With reference to market price	Note (3)
Tianjin Tianyong Expressway Co. Ltd.* (天津天永高速公路有限公司)	25 June 2015	68 days	1,681	2,091	With reference to market price	Note (4)
Tianjin Jinfu Expressway Co. Ltd.* (天津津富高速公路有限公司)	24 July 2015	26 July 2015 – 26 September 2015	2,218	2,759	With reference to market price	Note (5)

* for identification purpose only

REPORT OF THE DIRECTORS

Note:

- (1) Provision of daily and damages maintenance services and the consideration shall be settled quarterly.
- (2) Provision of daily and damages maintenance services and the consideration shall be paid in the following manners: 30% prepayment upon signing the agreement, quarterly settlement based on actual volume, 20% of the prepayment will net off against in the first and second quarter settlements, 30% of the prepayment will net off against the third and fourth quarter settlements.
- (3) Provision of renovation maintenance services and the consideration shall be paid in the following manners: 20% prepayment upon signing agreement, additional 75% of the consideration shall be paid as the progress payment with the remaining 5% warranty deposit.
- (4) Provision of renovation maintenance services and the consideration shall be paid in the following manner: 10% prepayment upon starting the provision of services, additional 65% of the consideration shall be paid as the progress payment, after completion of verification procedures pay additional 20% with remaining 5% warranty deposit
- (5) Provision of renovation maintenance services and the consideration shall be paid in the following manner: 10% prepayment upon starting the provision of services, 85% of the consideration shall be paid within 3 months after completion of services with the remaining 5% warranty deposit.

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

22. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 36 to the financial statements. Save for those set out in the above section "Connected Transactions" in the Report of Directors, the related party transactions do not constitute connected transactions under the Listing Rules.

23. SUFFICIENCY OF PUBLIC FLOAT

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

24. AUDIT COMMITTEE

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

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

REPORT OF THE DIRECTORS

25. AUDITORS

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

On behalf of the Board

Mr. Sze Wai Pan

Chairman and Chief Executive Officer

Hong Kong, 23 March 2016

INDEPENDENT AUDITOR'S REPORT



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

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

TO THE MEMBERS OF FREETECH ROAD RECYCLING TECHNOLOGY (HOLDINGS) LIMITED

英達公路再生科技(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Freetech Road Recycling Technology (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 121, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other 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.

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	7	616,641	390,434
Cost of sales		(430,793)	(228,427)
Gross profit		185,848	162,007
Other income	8	14,156	16,934
Other gains and losses	9	(3,134)	(275)
Selling and distribution costs		(22,456)	(23,201)
Administrative expenses		(84,154)	(64,922)
Research and development costs		(13,864)	(15,406)
Other expenses		(73)	(270)
Share of profits (losses) of joint ventures		2,550	(5,406)
Share of losses of associates		–	(1,393)
Finance costs	10	(1,252)	(2,553)
Profit before taxation	11	77,621	65,515
Taxation	13	(11,913)	(11,465)
Profit for the year		65,708	54,050
Other comprehensive expense for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation		(68,910)	(4,299)
Other comprehensive expense for the year		(68,910)	(4,299)
Total comprehensive (expense) income for the year		(3,202)	49,751
Profit (loss) for the year attributable to:			
Owners of the Company		64,502	58,497
Non-controlling interests		1,206	(4,447)
		65,708	54,050
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(2,643)	54,253
Non-controlling interests		(559)	(4,502)
		(3,202)	49,751
Earnings per share	15		
— Basic		HK6.07 cents	HK5.42 cents
— Diluted		HK5.98 cents	HK5.42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	16	296,011	250,908
Goodwill	17	10,507	4,907
Prepaid lease payments	18	5,936	6,506
Other intangible assets	19	311	433
Prepayments for acquisition of land use rights		47,157	44,366
Interests in joint ventures	20	72,457	34,282
Deferred tax assets	21	5,788	10,044
		438,167	351,446
Current assets			
Inventories	22	57,954	58,713
Bills and trade receivables	23	651,217	548,562
Prepayments, deposits and other receivables	24	77,215	50,963
Prepaid lease payments	18	193	205
Time deposits	25	85,027	236,240
Pledged bank deposits	25	140,098	6,880
Structured bank deposits	25	2,030	–
Bank balances and cash	25	251,880	110,783
		1,265,614	1,012,346
Current liabilities			
Bills, trade and other payables	26	370,009	128,221
Taxation payable		7,710	6,809
Bank borrowings	27	72,325	634
		450,044	135,664
Net current assets		815,570	876,682
Total assets less current liabilities		1,253,737	1,228,128
Non-current liabilities			
Deferred tax liabilities	21	12,860	13,888
		1,240,877	1,214,240

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Capital and reserves			
Share capital	28	107,900	107,900
Reserves		1,035,035	1,061,747
Attributable to the owners of the Company		1,142,935	1,169,647
Non-controlling interest		97,942	44,593
Total equity		1,240,877	1,214,240

The consolidated financial statements on pages 42 to 121 were approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

Mr. Sze Wai Pan
DIRECTOR

Ms. Sze Wan Nga
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Shares held under the share award scheme HK\$'000 (Note c)	Contributed surplus HK\$'000 (Note a)	Reserve funds HK\$'000 (Note b)	Share-based compensation reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	Total HK\$'000
At 1 January 2014	107,900	732,463	-	25,328	71,880	-	34,776	221,561	1,193,908	20,307	1,214,215
Profit (loss) for the year	-	-	-	-	-	-	-	58,497	58,497	(4,447)	54,050
Other comprehensive expense for the year	-	-	-	-	-	-	(4,244)	-	(4,244)	(55)	(4,299)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(4,244)	58,497	54,253	(4,502)	49,751
Acquisition of subsidiaries (note 31)	-	-	-	-	-	-	-	-	-	28,788	28,788
Dividend recognised as distribution (note 14)	-	-	-	-	-	-	-	(59,345)	(59,345)	-	(59,345)
Transfer from retained profits	-	-	-	-	8,704	-	-	(8,704)	-	-	-
Share purchased for the share award scheme (note 30)	-	-	(19,724)	-	-	-	-	-	(19,724)	-	(19,724)
Equity-settled share award scheme (note 30)	-	-	-	-	-	430	-	-	430	-	430
Equity settled share option arrangements (note 29)	-	-	-	-	-	125	-	-	125	-	125
At 31 December 2014 and 1 January 2015	107,900	732,463	(19,724)	25,328	80,584	555	30,532	212,009	1,169,647	44,593	1,214,240
Profit for the year	-	-	-	-	-	-	-	64,502	64,502	1,206	65,708
Other comprehensive expense for the year	-	-	-	-	-	-	(67,145)	-	(67,145)	(1,765)	(68,910)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(67,145)	64,502	(2,643)	(559)	(3,202)
Acquisition of subsidiaries (note 31)	-	-	-	-	-	-	-	-	-	53,908	53,908
Dividend recognised as distribution (note 14)	-	-	-	-	-	-	-	(16,185)	(16,185)	-	(16,185)
Transfer from retained profits	-	-	-	-	412	-	-	(412)	-	-	-
Share purchased for the share award scheme (note 30)	-	-	(10,032)	-	-	-	-	-	(10,032)	-	(10,032)
Equity-settled share award scheme (note 30)	-	-	-	-	-	1,633	-	-	1,633	-	1,633
Equity settled share option arrangements (note 29)	-	-	-	-	-	515	-	-	515	-	515
Transfer of awarded shares upon vesting	-	-	3,172	-	-	(2,063)	-	(1,109)	-	-	-
At 31 December 2015	107,900	732,463	(26,584)	25,328	80,996	640	(36,613)	258,805	1,142,935	97,942	1,240,877

Notes:

- The contributed surplus represents the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation, details of which are set out under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013.
- 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.
- The amount represents payments by the Group to the trustee of the Share Award Scheme (as defined in note 30), net off with the vested portion to selected employees who have been awarded shares under the Share Award Scheme. Details of the Share Award Scheme is set out in note 30.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Operating activities			
Profit before taxation		77,621	65,515
Adjustments for:			
Interest income		(10,136)	(11,948)
Finance costs		1,252	2,553
Share of losses of associates		–	1,393
Share of (profits) losses of joint ventures		(2,550)	5,406
Depreciation		34,951	23,679
Amortisation of prepaid lease payments		193	205
Amortisation of other intangible assets		102	60
Loss on disposal of property, plant and equipment		810	1,069
Allowance for bad and doubtful debts, net		11,996	17,393
Impairment of goodwill		2,863	–
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value		(16,173)	(24,596)
Share-based payment expense		2,148	555
Unrealised exchange differences		(5,970)	(4,252)
Operating cash flows before movements in working capital		97,107	77,032
Increase in inventories		(158)	(25,353)
Increase in bills and trade receivables		(48,947)	(8,273)
Increase in prepayments, deposits and other receivables		(38,700)	(8,953)
Increase (decrease) in bills, trade and other payables		73,511	(30,999)
Cash generated from operations		82,813	3,454
Interest paid		(1,252)	(2,553)
Income tax paid		(12,549)	(19,691)
Net cash from (used in) operating activities		69,012	(18,790)
Investing activities			
Interest received		10,136	11,948
Proceeds from disposal of property, plant and equipment		17	87
Purchase of property, plant and equipment		(19,615)	(34,324)
Placement of pledged bank deposits		(140,718)	(25,684)
Withdrawal of pledged bank deposits		6,751	18,879
Placement of structured bank deposits		(2,030)	–
Investment in a subsidiary		–	(26)
Investments in joint ventures		(46,700)	–
Advance to joint ventures		–	(10,247)
Repayment from a joint venture		10,148	285
Net cash inflow (outflow) on acquisitions of subsidiaries	31	36,745	(15,982)
Payments for other intangible assets		–	(394)
Placement of time deposits		(8,582)	(26,031)
Withdrawal of time deposits		151,829	143,368
Prepayment for acquisition of land use rights		–	(44,366)
Net cash (used in) from investing activities		(2,019)	17,513

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Financing activities			
Bank borrowings raised		109,639	634
Repayments of bank borrowings		(37,936)	(71,401)
Dividends paid		(16,185)	(59,345)
Purchase of shares held under the share award scheme		(10,032)	(19,724)
Increase in bills, trade and other payables		27,679	–
Net cash from (used in) financing activities		73,165	(149,836)
Net increase (decrease) in cash and cash equivalents		140,158	(151,113)
Cash and cash equivalents at the beginning of the year		110,783	261,120
Effects of exchange rate changes on the balance of cash held in foreign currencies		939	776
Cash and cash equivalents at the end of the year, represented by bank balances and cash		251,880	110,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

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

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

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

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

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

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

(a) New and revised HKFRSs adopted during the year

The Group has applied for the first time in the current year the following amendments to HKFRSs:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

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

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

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after a date to be determined.

HKFRS 15 Revenue from Contracts with Customers

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

The amendments to HKFRS 10 *Consolidated Financial Statements* and HKAS 28 *Investments in Associates and Joint Ventures* deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of Amendments to HKFRS 10 and HKAS 28 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of Amendments to HKFRS 10 and HKAS 28 until the Group performs a detailed review.

Other than disclosed above, the Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial performance and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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

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

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

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

Investments in associates and joint ventures

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

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

Revenue recognition

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

Leasing

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

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

Leasehold land for own use

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

Derecognition of intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Equity-settled share-based payment transactions

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

The objective evidence of impairment could include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

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

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

At 31 December 2015, the carrying amount of property, plant and equipment amounted to approximately HK\$296,011,000 (2014: HK\$250,908,000) with nil balance of accumulated impairment loss at both 31 December 2015 and 31 December 2014, details of which are set out in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is the higher of fair value less cost of disposal and the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is HK\$10,507,000 (net of accumulated impairment loss of HK\$2,863,000) (2014: HK\$4,907,000 (net of accumulated impairment loss of nil)), details of which are set out in note 17.

Allowance for inventories

Management reviews the ageing analysis of inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. A considerable amount of judgement is required in assessing the ultimate realisation of these inventories. If the market conditions were to change, resulting in a change of provision for obsolete items, the difference will be recorded in the period it is identified. Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses. As at 31 December 2015, the carrying amount of inventories is HK\$57,954,000 (net of allowance for inventories of nil) (2014: carrying amount of HK\$58,713,000, net of allowance for inventories of nil).

Impairment of trade receivables

The policy for impairment assessment for receivables of the Group is based on the evaluation of collectability and ageing analysis of receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. As at 31 December 2015, the carrying amount of trade receivables is HK\$651,217,000 (net of allowance for bad and doubtful debts of HK\$63,416,000) (2014: carrying amount of HK\$547,675,000, net of allowance for bad and doubtful debts of HK\$55,231,000).

5. CAPITAL RISK MANAGEMENT

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,161,276	935,007
Financial liabilities		
Amortised cost	329,061	105,820

Financial risk management objectives and policies

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

Market risk

Currency risk

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

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

	Assets		Liabilities	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
United States dollars ("US\$")	107	41	27,125	–
Hong Kong dollars ("HK\$")	14,009	24,085	47,229	2,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis

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

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

	US\$ impact (i)		HK\$ impact (ii)	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase (decrease) in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	1,351	(2)	1,661	(1,083)

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

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

Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

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

A 10 basis points (2014: 10 basis points) increase or decrease in interest rates on variable bank balances, and a 100 basis points (2014: 100 basis points) increase or decrease in interest rates on variable-rate borrowings represent managements' assessment of the reasonably possible changes in interest rates.

If interest rates on variable-rate bank balances had been 10 basis points (2014: 10 basis points) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Increase in post-tax profit for the year	386	103

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rates on variable-rate bank balances had been 10 basis points (2014: 10 basis points) lower and all other variables were held constant.

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

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Decrease in post-tax profit for the year	614	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

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

There is concentration of credit risk on pledged bank deposits, time deposits, structured bank deposits and bank balances for the Group as at 31 December 2015 and 31 December 2014. As at 31 December 2015, balances with the four largest banks accounted for 77% (2014: 90%) of total pledged bank deposits, time deposits and bank balances of the Group. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group's credit risk on bills and trade receivables is concentrated in the PRC. The Group had five customers accounted for approximately 39% (2014: 28%) of all receivables owing at the end of the reporting period. However, the Group evaluates the concentration of risk with respect to trade receivables as low, as a large number of diversified customers.

Liquidity risk

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

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

	Weighted average interest rate %	On demand and less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts at 31.12.2015 HK\$'000
2015						
Non-derivative financial liabilities						
Non-interest bearing	–	256,736	–	–	256,736	256,736
Floating rate instruments	2.12%	73,373	–	–	73,373	72,325
		330,109	–	–	330,109	329,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	On demand and less than 3 months HK\$'000	3 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts at 31.12.2014 HK\$'000
2014						
Non-derivative financial liabilities						
Non-interest bearing	–	105,186	–	–	105,186	105,186
Fixed rate instruments	6.00%	–	653	–	653	634
		<u>105,186</u>	<u>653</u>	<u>–</u>	<u>105,839</u>	<u>105,820</u>

At 31 December 2015, included in interest-bearing bank borrowings was a term loan in the amount of HK\$72,325,000 (2014: nil). The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time. In the opinion of the directors of the Company, such term loan would not be repayable on-demand and would be repaid by instalments in accordance with the scheduled repayment dates. For the purpose of the above maturity profile, the total amount was classified as "on demand".

Fair value

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

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

7. REVENUE AND SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance. The Group's operating and reportable segments are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results

	Maintenance services HK\$'000	Sale of equipment HK\$'000	Consolidated total HK\$'000
For the year ended 31 December 2015			
Segment revenue:			
Sales to external customers	535,709	80,932	616,641
Intersegment sales	23,933	22,534	46,467
Other revenue	4,020	–	4,020
	563,662	103,466	667,128
Reconciliation			
Elimination of intersegment sales	(23,933)	(22,534)	(46,467)
	539,729	80,932	620,661
Revenue	539,729	80,932	620,661
Allocated corporate expenses	(483,031)	(64,514)	(547,545)
	56,698	16,418	73,116
Segment results			
Reconciliation:			
Interest income			10,136
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value			16,173
Exchange losses			(3,638)
Finance costs			(1,252)
Unallocated corporate expenses			(19,464)
Share of profits of joint ventures			2,550
			77,621
Profit before tax			

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For the year ended 31 December 2015

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Maintenance services HK\$'000	Sale of equipment HK\$'000	Consolidated total HK\$'000
As at 31 December 2015			
Segment assets	1,083,688	302,025	1,385,713
Elimination of intersegment receivables			(298,904)
Investments in joint ventures			72,457
Other unallocated assets			544,515
Total assets			1,703,781
Segment liabilities	476,967	179,089	656,056
Elimination of intersegment payables			(298,904)
Other unallocated liabilities			105,752
Total liabilities			462,904
As at 31 December 2014			
Segment assets	633,218	326,876	960,094
Elimination of intersegment receivables			(84,552)
Investments in joint ventures			34,282
Other unallocated assets			453,968
Total assets			1,363,792
Segment liabilities	177,799	33,222	211,021
Elimination of intersegment payables			(84,552)
Other unallocated liabilities			23,083
Total liabilities			149,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Maintenance services HK\$'000	Sale of equipment HK\$'000	Consolidated total HK\$'000
For the year ended 31 December 2015			
Impairment losses in respect of trade and other receivables	6,164	5,832	11,996
Depreciation and amortisation	31,874	3,372	35,246
Capital expenditure (Note)	43,600	289	43,889

For the year ended 31 December 2014

Impairment losses in respect of trade and other receivables	16,266	1,127	17,393
Depreciation and amortisation	21,325	2,619	23,944
Capital expenditure (Note)	32,281	2,437	34,718

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

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

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

During the year ended 31 December 2015, revenue from a related company, accounted for 10% or more of the Group's revenue and its revenue amounted to HK\$168,354,000. The sales to the above related company were derived from the provision of road maintenance services. During the year ended 31 December 2014, there was one customer accounted for 10% or more of the Group's revenue and its revenue amounted to HK\$51,218,000. The sales to the above customer were derived from the provision of road maintenance services.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Government grants (Note)	2,839	3,996
Interest income	10,136	11,948
Others	1,181	990
	14,156	16,934

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

9. OTHER GAINS AND LOSSES

	2015 HK\$'000	2014 HK\$'000
Loss on disposal of property, plant and equipment	(810)	(1,069)
Impairment loss recognised in respect of goodwill	(2,863)	–
Impairment of trade receivables	(11,869)	(18,175)
(Recognition)/reversal of impairment of other receivables	(127)	782
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value	16,173	24,596
Net foreign exchange losses	(3,638)	(6,409)
	(3,134)	(275)

10. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on:		
— Bank borrowings wholly repayable within five years	1,252	2,553
Less: amounts capitalised	–	–
	1,252	2,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. PROFIT BEFORE TAXATION

	2015 HK\$'000	2014 HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 12)	6,349	5,812
Other staff retirement benefit scheme contributions	7,114	3,426
Other staff costs	60,165	62,452
Share-based payment expense for other staff	1,689	435
Total staff costs	75,317	72,125
Amortisation of prepaid lease payments	193	205
Amortisation of other intangible assets	102	60
Auditor's remuneration	1,480	1,380
Cost of inventories sold	37,738	25,544
Cost of services provided	393,055	202,883
Depreciation	34,951	23,679

Share-based payment expense of approximately HK\$2,148,000 (2014: HK\$555,000) were recognised in profit or loss during the year ended 31 December 2015 in respect of share options and awards of the Company. Details of transactions are set out in note 29 and note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

The emoluments paid or payable to each of the nine (2014: nine) directors for the year ended 31 December 2015 were as follows:

	2015						2014					
	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance related bonuses HK\$'000	Share-based payment expenses HK\$'000	Contributions to retirement benefit schemes HK\$'000	Total HK\$'000	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance related bonuses HK\$'000	Share-based payment expenses HK\$'000	Contributions to retirement benefit schemes HK\$'000	Total HK\$'000
Executive directors												
Sze Wai Pan	-	1,584	564	-	18	2,166	-	1,440	564	-	17	2,021
Sze Wan Nga	-	857	386	21	18	1,282	-	862	386	5	17	1,270
Zhang Yifu	-	746	142	204	18	1,110	-	720	142	53	17	932
Chan Kai King	-	809	130	204	18	1,161	-	780	130	53	17	980
Non-executive directors												
Wang Lei	-	-	-	-	-	-	-	-	-	-	-	-
Yeung Chin Chiu	-	-	-	-	-	-	-	-	-	-	-	-
Independent non-executive directors												
Yeung Sum	200	-	-	10	-	210	200	-	-	3	-	203
Tang Koon Yiu, Thomas	200	-	-	10	-	210	200	-	-	3	-	203
Lau Ching Kwong	200	-	-	10	-	210	200	-	-	3	-	203
	600	3,996	1,222	459	72	6,349	600	3,802	1,222	120	68	5,812

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

The five highest paid individuals included four (2014: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one (2014: one) highest paid individuals during the year are as follows:

	2015 HK\$'000	2014 HK\$'000
Basic salaries and allowances	786	762
Performance related bonuses	127	127
Retirement benefits scheme contributions	18	17
Share-based payment expense	94	24
	1,025	930

Their emoluments are within the following band:

	Number of employees	
	2015	2014
HK\$Nil to HK\$1,000,000	-	1
HK\$1,000,001 to HK\$1,500,000	1	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. TAXATION

The charge comprises:

	2015 HK\$'000	2014 HK\$'000
PRC Enterprise Income Tax ("EIT"):		
— Current year	8,530	6,465
— Over provision in prior years	(1,239)	(553)
	7,291	5,912
Deferred tax charge (note 21)	4,622	5,553
	11,913	11,465

No provision for Hong Kong profits tax has been made for the years ended 31 December 2015 and 2014 as the Group did not generate any assessable profits arising in Hong Kong or had available tax losses brought forward from prior years to offset the assessable profits generated during both years.

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

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

南京英達公路養護車製造有限公司 Nanjing Freetech Road Maintenance Vehicle Manufacturing Corporation ("Freetech Vehicle Manufacturing") was recognised as a High-Tech company in 2009, 2012 and 2015 respectively and the applicable tax rate is 15% from 1 January 2009 to 3 November 2018.

Withholding tax of approximately HK\$1,074,000 (2014: HK\$529,000) has been provided for in the year ended 31 December 2015 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. TAXATION (Continued)

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

	2015		2014	
	HK\$'000	%	HK\$'000	%
Profit before taxation	77,621		65,515	
Tax at the applicable income tax rate of 25% (2014: 25%) (note)	19,405	25.0	16,379	25.0
Tax effect of expenses not deductible for tax purposes	3,153	4.1	3,009	4.6
Tax effect of tax losses not recognised	7,984	10.3	6,796	10.4
Tax effect of income not taxable for tax purpose	(11,422)	(14.8)	(7,780)	(11.9)
Tax effect of share of profits of joint ventures and associates	(637)	(0.8)	1,700	2.6
Tax effect of deductible temporary differences not recognised	4,361	5.5	2,937	4.5
Utilisation of tax losses and deductible temporary differences previously not recognised	(312)	(0.4)	–	–
Income tax at concessionary rates	(8,721)	(11.2)	(9,626)	(14.7)
Over provision in prior years	(1,239)	(1.6)	(553)	(0.8)
Tax effect of additional deduction related to research and development costs and certain staff costs	(1,733)	(2.2)	(1,926)	(2.9)
Withholding tax on undistributed profits of PRC subsidiaries	1,074	1.4	529	0.7
Taxation charge and effective tax rate for the year	11,913	15.3	11,465	17.5

Note: The domestic income tax rate of 25 % (2014: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. DIVIDENDS

	2015 HK\$'000	2014 HK\$'000
Dividends recognised as distribution:		
2014 final dividend of HK1.5 cents (2013: final dividend of HK5.5 cents) per ordinary share	16,185	59,345
2015 final dividend proposed of HK1.8 cents (2014: HK1.5 cents) per ordinary share	19,422	16,185

A final dividend of HK1.8 cents per ordinary share (2014: HK1.5 cents per share) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

	2015 HK\$'000	2014 HK\$'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share — attributable to the owners of the Company	64,502	58,497
Number of shares:		
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year for the purpose of calculating basic earnings per share	1,062,795,068	1,079,000,000
Effect of dilutive potential ordinary shares: Unvested share award	16,204,932	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,079,000,000	1,079,000,000

The computation of diluted earnings per share for the year ended 31 December 2015 and 31 December 2014 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1 January 2014	30,143	141,965	33,410	5,484	-	34,597	245,599
Acquisition of subsidiaries (note 31)	-	78,408	3,011	133	873	-	82,425
Additions	-	10,715	10,331	2,656	-	10,622	34,324
Transfer	432	-	-	-	-	(432)	-
Disposal/write-off	(1,378)	-	(1,918)	(197)	-	-	(3,493)
Effect of foreign currency exchange differences	(307)	(1,779)	(316)	(54)	2	(342)	(2,796)
At 31 December 2014	28,890	229,309	44,518	8,022	875	44,445	356,059
Acquisition of subsidiaries (note 31)	-	49,408	749	835	1,333	-	52,325
Additions	-	26,901	3,731	769	-	12,488	43,889
Disposal/write-off	-	(6,886)	(1,726)	(57)	-	-	(8,669)
Effect of foreign currency exchange differences	(1,673)	(16,661)	(2,906)	(497)	(92)	(3,072)	(24,901)
At 31 December 2015	27,217	282,071	44,366	9,072	2,116	53,861	418,703
DEPRECIATION							
At 1 January 2014	9,569	58,235	13,216	3,718	-	-	84,738
Provided for the year	1,310	15,184	6,347	791	47	-	23,679
Disposal/write-off	(444)	-	(1,726)	(167)	-	-	(2,337)
Effect of foreign currency exchange differences	(100)	(655)	(127)	(47)	-	-	(929)
At 31 December 2014	10,335	72,764	17,710	4,295	47	-	105,151
Provided for the year	1,277	23,790	8,699	940	245	-	34,951
Disposal/write-off	-	(6,235)	(1,558)	(49)	-	-	(7,842)
Effect of foreign currency exchange differences	(649)	(7,142)	(1,454)	(293)	(30)	-	(9,568)
At 31 December 2015	10,963	83,177	23,397	4,893	262	-	122,692
CARRYING VALUES							
At 31 December 2015	16,254	198,894	20,969	4,179	1,854	53,861	296,011
At 31 December 2014	18,555	156,545	26,808	3,727	828	44,445	250,908

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. GOODWILL

	2015 HK\$'000	2014 HK\$'000
Cost		
At beginning of the year	4,907	731
Additional amounts recognised from business combinations (note 31)	8,463	4,176
At the end of the year	13,370	4,907
Impairment		
At beginning of the year	–	–
Impairment losses recognised in the year	2,863	–
At the end of the year	2,863	–
Carrying amount		
At the end of the year	10,507	4,907

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. GOODWILL (Continued)

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

On 31 August 2015, the Group acquired a 55% equity interest in 天津市高速公路養護有限公司 Tianjin Expressway Maintenance Company Limited. ("Tianjin Expressway Maintenance"), which was previously owned by a third party 天津高速公路集團有限公司 Tianjin Expressway Group Company Limited ("Tianjin Expressway Group"), at a cash consideration of approximately HK\$58,503,000 (equivalent to approximately RMB46,802,400), resulting in a goodwill of HK\$6,150,000 as disclosed in note 31.

On 22 December 2015, the Group acquired a 25% equity interest in 福達道路再生工程有限公司 Futech Road Recycling Engineering Limited ("Futech Road Recycling"), which was previously a 50% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK\$13,388,000, resulting in a goodwill of HK\$2,313,000 as disclosed in note 31. The equity interests held by the Group in Futech Road Recycling increased from 50% to 75% upon the completion of this acquisition.

	2015 HK\$'000	2014 HK\$'000
Freetech Ordos	731	731
Hunan Freetech Tongqu	115	115
Suqian Hengtong	–	2,863
Xinjiang Jianda	1,198	1,198
Tianjin Expressway Maintenance	6,150	–
Futech Road Recycling	2,313	–
At the end of the year	10,507	4,907

For the purposes of impairment testing, the six subsidiaries (2014: four subsidiaries) are considered as six cash-generating units ("CGU") (2014: four CGUs) as they can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets.

During the year ended 31 December 2015, the Group recognised an impairment loss of HK\$2,863,000 (2014: nil) in relation to goodwill of Suqian Hengtong since the market of road maintenance in Suqian declined. There is no impairment in relation to the goodwill of other subsidiaries.

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

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates are in the range of 13% to 15% (2014: 13% to 15%). The CGU's cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% (2014: 1%). The growth rate used is based on management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

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For the year ended 31 December 2015

18. PREPAID LEASE PAYMENTS

	2015 HK\$'000	2014 HK\$'000
Non-current	5,936	6,506
Current	193	205
	<u>6,129</u>	<u>6,711</u>

19. OTHER INTANGIBLE ASSETS

	Software HK\$'000
COST	
At 1 January 2014	846
Additions	394
Effect of foreign currency exchange differences	(9)
	<u>1,231</u>
At 31 December 2014	1,231
Effect of foreign currency exchange differences	(70)
	<u>1,161</u>
At 31 December 2015	1,161
AMORTISATION	
At 1 January 2014	746
Charge for the year	60
Effect of foreign currency exchange differences	(8)
	<u>798</u>
At 31 December 2014	798
Charge for the year	102
Effect of foreign currency exchange differences	(50)
	<u>850</u>
At 31 December 2015	850
CARRYING VALUES	
At 31 December 2015	<u>311</u>
At 31 December 2014	<u>433</u>

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

Software 5 years

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20. INTERESTS IN JOINT VENTURES

	2015 HK\$'000	2014 HK\$'000
Cost of unlisted investments in joint ventures	112,171	86,640
Share of post-acquisition profits and other comprehensive income, net of dividend received	(8,985)	(7,871)
Unrealised profit of sales to joint ventures	(30,729)	(44,487)
	72,457	34,282

At 31 December 2015 and 2014, when the unrealised profits of sales to a joint venture exceed the Group's share of the net assets of the joint venture, a negative balance of the interests in that joint venture will result. Such negative balance of interests in a joint venture is not net off with other interests in joint venture and is reclassified and included under the line item bills, trade and other payables of the consolidated statement of financial position, details of which are set out in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. INTERESTS IN JOINT VENTURES (Continued)

As at 31 December 2015 and 2014, the Group had interests in the following joint ventures:

Name of entity	Form of business structure	Place/Country of establishment/ incorporation, principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting rights held by the Group		Principal activity
			2015	2014	2015	2014	
福達道路再生工程有限公司 Futech Road Recycling Engineering Limited ("Futech Road Recycling")	Limited liability company	Hong Kong	NA (Note 1)	50%	NA	50%	Investment holding
泉州福達道路再生工程技術有限公司 Quanzhou Futech Road Recycling Engineering Technology Co., Ltd. ("Quanzhou Futech Road Recycling")	PRC equity joint venture	PRC	NA (Note 1)	50%	NA	50%	Provision of road maintenance services
南京路捷道路養護工程有限公司 Nanjing Lujie Road Maintenance Engineering Co., Ltd. ("Nanjing Lujie")	PRC equity joint venture	PRC	45%	45%	45%	45%	Provision of road maintenance services
廣東穗通道路再生工程有限公司 Guangdong Suitong Road Recycling Engineering Co., Ltd. ("Guangdong Suitong")	PRC equity joint venture	PRC	51% (Note 2)	51%	51%	51%	Provision of road maintenance services
福州速達道路養護工程有限公司 Fuzhou Suda Road Maintenance Engineering Co., Ltd. ("Fuzhou Suda")	PRC equity joint venture	PRC	35%	35%	35%	35%	Provision of road maintenance services
連雲港路達道路再生工程有限公司 Lianyungang Luda Road Recycling Engineering Co., Ltd. ("Lianyungang Luda")	PRC equity joint venture	PRC	35%	35%	35%	35%	Provision of road maintenance services
財匯有限公司 Flourish Rich Limited	Limited liability company	Hong Kong	45%	15%	50%	50%	Investment holding (note 3)
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited ("Nanjing Golden Rich")	PRC equity joint venture	PRC	45%	15%	50%	50%	Provision of leasing services (note 3)

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20. INTERESTS IN JOINT VENTURES (Continued)

Notes:

1. During the year ended 31 December 2015, the Group acquired additional 25% equity interest in Futech Road Recycling, which is the immediate holding company of Quanzhou Futech Road Recycling. The Group obtained the control in Futech Road Recycling and Quanzhou Futech Road Recycling, and Futech Road Recycling and Quanzhou Futech Road Recycling became subsidiaries of the Group thereafter. A fair value gain of HK\$16,173,000 from remeasurement of the 50% equity interests previously held in Futech Road Recycling and Quanzhou Futech Road Recycling to fair value were recognised in profit or loss upon the consolidation of Futech Road Recycling and Quanzhou Futech Road Recycling. Details of the acquisition are set out in note 31.
2. The Group holds 51% of the registered capital of Guangdong Suitong and holds 51% of the voting power in general meeting. However, under the joint venture agreement, Guangdong Suitong is jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Guangdong Suitong require the unanimous consent of the Group and the other party sharing the control. Therefore, Guangdong Suitong is classified as a joint venture of the Group as of the year ended 31 December 2015 and 2014.
3. The voting power is determined with reference to the number of directors representing the Group in the respective board of directors of the joint venture. The joint venture partners have an equal number of seats on the board of directors.

Summarised financial information of a material joint venture

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

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

Nanjing Lujie

	2015 HK\$'000	2014 HK\$'000
Current assets	99,950	86,156
Non-current assets	42,253	48,539
Current liabilities	70,369	62,488
The above amounts of assets and liabilities included the following:		
Cash and cash equivalent	16,168	11,392
Current financial liabilities (excluding trade and other payables and provisions)	5,971	14,656
Revenue	86,612	112,922
Profit for the year	3,968	3,240
Other comprehensive expense for the year	(4,339)	–
Total comprehensive (expense) income for the year	(371)	3,240
Dividends received from Nanjing Lujie during the year	–	–

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For the year ended 31 December 2015

20. INTERESTS IN JOINT VENTURES (Continued)

Summarised financial information of a material joint venture (Continued)

The above profit for the year included the following:

	2015 HK\$'000	2014 HK\$'000
Depreciation and amortisation	6,435	6,569
Interest income	38	50
Interest expense	373	206
Income tax expense	1,847	669

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

	2015 HK\$'000	2014 HK\$'000
Net assets of Nanjing Lujie	71,834	72,207
Proportion of the Group's ownership interest in Nanjing Lujie	45%	45%
Unrealised profit of sales to the joint venture	(7,315)	(8,761)
Carrying amount of the Group's interest in Nanjing Lujie	25,270	23,991

Aggregate information of joint ventures that are not individually material

	2015 HK\$'000	2014 HK\$'000
The Group's share of loss and total comprehensive expense	(6,847)	(12,069)
Aggregate carrying amount of the Group's interest in the joint ventures	47,187	10,291

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For the year ended 31 December 2015

21. DEFERRED TAXATION

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

	Withholding tax HK\$'000	Unrealised profits from transactions with associates and joint ventures HK\$'000	Total HK\$'000
At 1 January 2014	(16,955)	15,320	(1,635)
Charge to profit or loss	(529)	(5,024)	(5,553)
Reversal to profit or loss on payment of withholding tax	3,458	–	3,458
Effect of foreign currency exchange differences	138	(252)	(114)
At 31 December 2014 and 1 January 2015	<u>(13,888)</u>	<u>10,044</u>	<u>(3,844)</u>
Charge to profit or loss	(1,074)	(3,548)	(4,622)
Reversal to profit or loss on payment of withholding tax	1,306	–	1,306
Effect of foreign currency exchange differences	796	(708)	88
At 31 December 2015	<u>(12,860)</u>	<u>5,788</u>	<u>(7,072)</u>

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

	2015 HK\$'000	2014 HK\$'000
Deferred tax assets	5,788	10,044
Deferred tax liabilities	(12,860)	(13,888)
	(7,072)	(3,844)

At 31 December 2015, the Group has not recognised deductible temporary difference on provision for trade and other receivables of approximately HK\$63,858,000 (2014: HK\$56,656,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2015, the Group has tax losses arising in Hong Kong of approximately HK\$56,873,000 (2014: HK\$25,813,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK\$45,262,000 (2014: HK\$37,536,000) that will expire at various dates up to and including 2020 (2014: 2019) for offsetting against future taxable profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. DEFERRED TAXATION *(Continued)*

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK\$287 million (2014: HK\$258 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

22. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Raw materials	17,953	12,036
Work-in-progress	25,156	44,527
Finished goods	14,845	2,150
	57,954	58,713

23. BILLS AND TRADE RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	714,633	602,906
Less: Allowance for bad and doubtful debts	(63,416)	(55,231)
	651,217	547,675
Bills receivables	–	887
	651,217	548,562

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

	2015 HK\$'000	2014 HK\$'000
0 to 180 days	–	887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. BILLS AND TRADE RECEIVABLES (Continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group's trade customers are principally government agencies. The credit period is determined on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	2015 HK\$'000	2014 HK\$'000
Within 3 months	232,746	150,869
3 to 12 months	128,731	166,000
1 to 2 years	148,305	159,978
Over 2 years	141,435	70,828
	651,217	547,675

At 31 December 2015, included in the trade receivables are amounts due from the Group's related companies of HK\$153,838,000 (2014: HK\$67,328,000), which are repayable on credit terms similar to those offered to the major customers of the Group, details of which are set out in note 36.

At 31 December 2015, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$217,119,000 (2014: HK\$170,788,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

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

	2015 HK\$'000	2014 HK\$'000
Less than 1 month past due	45,886	16,866
1 to 3 months past due	30,643	38,468
More than 3 months but less than 12 months past due	112,369	98,743
Over 1 year	28,221	16,711
	217,119	170,788

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. BILLS AND TRADE RECEIVABLES (Continued)

Movement in the allowance for doubtful debts — trade receivables

	2015 HK\$'000	2014 HK\$'000
1 January	55,231	36,872
Allowance for bad and doubtful debts	11,869	18,175
Amounts written off as uncollectible	(13)	–
Effect of foreign currency differences	(3,671)	184
31 December	63,416	55,231

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Other receivables	31,466	33,967
Less: Allowance for bad and doubtful debts	(442)	(1,425)
	31,024	32,542
Prepayments and deposits	45,975	17,718
Tax recoverable	216	703
	77,215	50,963

At 31 December 2015, included in the Group's other receivables are amounts due from related companies of HK\$941,000 (2014: HK\$10,247,000), which are unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts — other receivables

	2015 HK\$'000	2014 HK\$'000
1 January	1,425	2,228
Allowance/(reversal) for bad and doubtful debts	127	(782)
Amounts written off as uncollectible	(1,022)	–
Effect of foreign currency differences	(88)	(21)
31 December	442	1,425

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

Time deposits at 31 December 2015 represented bank deposits placed in banks in Hong Kong and the PRC. The interest rate was fixed at 3.95% to 4.2% (2014: 3.45% to 4.85%) per annum in 2015.

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2015 carried an interest rate from 0.35% to 4.2% (2014: 0.35%) per annum.

Structured bank deposits represent foreign currency or interest rate linked structured bank deposits ("SBDs") placed by the Group to a number of banks. Pursuant to the relevant underlying agreements, the SBDs carry interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period and the principal sums are denominated in RMB. In the opinion of the Directors, the fair value of embedded derivatives does not have material impacts on the results and financial position of the Group.

Bank balances and cash comprise cash at bank that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank balances at 31 December 2015 carry interest at prevailing market rates which ranged from 0.01% to 3.00% (2014: 0.01% to 0.35%) per annum.

At 31 December 2015, certain time deposit, bank balances and cash, pledged bank deposits and structured bank deposits of approximately HK\$465,672,000 (2014: HK\$334,061,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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26. BILLS, TRADE AND OTHER PAYABLES

	2015 HK\$'000	2014 HK\$'000
Bills payable	8,267	–
Trade payables	235,984	77,396
Other tax payables	33,001	21,041
Advance from customers, other payables and accrued charges	92,757	29,784
	370,009	128,221

At 31 December 2015, included in the Group's trade payables are amounts due to related parties of approximately HK\$24,589,000 (2014:HK\$7,255,000) which is repayable within 90 days, which represents credit terms similar to those offered by related parties to their major customers, details of which are set out in note 36.

At 31 December 2015, included in the Group's advance from customers, other payables and accrued charges is an amount due to a related party of approximately HK\$36,131,000 (2014: nil) which is unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 36.

At 31 December 2015, included in the Group's advance from customers, other payables and accrued charges is an amount due to a non-controlling shareholder of approximately HK\$27,679,000 (2014: nil) which is unsecured, interest-free and have no fixed terms of repayment.

At 31 December 2015, included in the Group's advance from customers, other payables and accrued charges is an amount of HK\$11,183,000 (2014: HK\$12,760,000), which represents the excess balance of the unrealized profits of sales to joint ventures over the share of their net assets.

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

	2015 HK\$'000	2014 HK\$'000
0 to 180 days	8,267	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

26. BILLS, TRADE AND OTHER PAYABLES (Continued)

The Group normally receives credit terms of 30 days to 180 days (2014: 30 days to 180 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2015 HK\$'000	2014 HK\$'000
Within 3 months	162,127	43,087
3 to 12 months	32,690	22,338
1 to 2 years	33,505	2,425
Over 2 years	7,662	9,546
	235,984	77,396

27. BANK BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Secured	72,325	–
Unsecured	–	634
	72,325	634
Carrying amounts repayable:		
Within one year or on demand	72,325	634

At 31 December 2015, the Group's bank borrowings denominated in HK\$ and US\$ amounted to HK\$45,200,000 and HK\$27,125,000 (equivalent to US\$3,500,000). The HK\$ denominated bank loan carries interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.7% or 1.85% per annum and the US\$ denominated bank loan carries interest at London Interbank Offered Rate ("LIBOR") plus 1.85% per annum. At 31 December 2014, all the Group's bank borrowings were denominated in RMB. The effective interest rates range from 1.92% to 2.28% (2014: fixed interest rates at 6%) per annum.

At 31 December 2015, included in the Group's bank borrowings repayable within one year or on demand is a secured bank loan of HK\$72,325,000 with an on-demand clause. There is no such balance at 31 December 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2014, 31 December 2014 and 31 December 2015	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 31 December 2015	1,079,000,000	107,900

29. SHARE OPTION SCHEMES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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29. SHARE OPTION SCHEMES (Continued)

No share option was granted during the year ended 31 December 2015. 4,970,000 share options were granted during the year ended 31 December 2014. The share options outstanding under the Scheme during the years ended 31 December 2015 and 2014 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2015
Directors								
Sze Wan Nga	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	100,000	-	-	-	100,000
Sze Wan Nga	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	100,000	-	-	-	100,000
Chan Kai King	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	100,000	-	-	-	100,000
Chan Kai King	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	100,000	-	-	-	100,000
Zhang Yi Fu	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	100,000	-	-	-	100,000
Zhang Yi Fu	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	100,000	-	-	-	100,000
Yeung Sum	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	50,000	-	-	-	50,000
Yeung Sum	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	50,000	-	-	-	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	50,000	-	-	-	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	50,000	-	-	-	50,000
Lau Ching Kwong	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	50,000	-	-	-	50,000
Lau Ching Kwong	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	50,000	-	-	-	50,000
Employees								
Employees	16.10.2014	16.10.2015–15.10.2017	HK\$2.50	2,035,000	-	-	-	2,035,000
Employees	16.10.2014	16.10.2017–15.10.2019	HK\$2.75	2,035,000	-	-	(15,000)	2,020,000
				<u>4,970,000</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>	<u>4,955,000</u>
Exercisable at the end of the year								<u>2,485,000</u>

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29. SHARE OPTION SCHEMES (Continued)

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

At 31 December 2015, the number of shares in respect of which options under the Scheme had been granted and remained outstanding was 4,955,000 (2014: 4,970,000), representing 0.46% (2014: 0.46%) of the shares of the Company in issue at that date.

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

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29. SHARE OPTION SCHEMES (Continued)

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

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

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

During the year ended 31 December 2015, the Group recognised total expenses of HK\$515,000 (2014: HK\$125,000) in relation to share options granted by the Company.

30. SHARE AWARD SCHEMES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

30. SHARE AWARD SCHEMES (Continued)

Movement of the Company's shares held by the trustee under the Share Award Scheme during the year is as follows:

	Number of shares '000		
	Held by the trustee yet to be awarded	Held by the trustee for the grantee	Total held by The trustee
Balance at 1 January 2014	–	–	–
Number of the Company's shares acquired by the trustee under the Share Award Scheme	10,625	–	10,625
Granted to grantees during the year	(1,489)	1,489	–
Balance at 1 January 2015	9,136	1,489	10,625
Transfer to grantee upon vesting during the year	–	(1,489)	(1,489)
Number of the Company's shares acquired by the trustee under the Share Award Scheme	8,234	–	8,234
Balance at 31 December 2015	17,370	–	17,370

- (1) During the year ended 31 December 2015, based on the Company's instruction, the trustee acquired 8,234,000 (2014: 10,625,000) ordinary shares of HK\$0.10 each in the Company for the Share Award Scheme through purchases in the open market at a total cost, including related transaction costs of approximately HK\$10,032,000 (2014: HK\$19,724,000).
- (2) On 16 October 2014, 1,489,000 ordinary shares of HK\$0.10 each in the Company were granted to Selected Employees.

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

Date of grant	Number of awarded shares granted	Fair value HK\$'000	Vesting period	Number of awarded shares				
				At 1 January 2014	Granted during the year	At 31 December 2014	Vested during the year	At 31 December 2015
16 October 2014	1,489,000	2,063	1 year	–	1,489,000	1,489,000	(1,489,000)	–
Total	1,489,000	2,063		–	1,489,000	1,489,000	(1,489,000)	–

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

The Group recognised a share award expense of HK\$1,633,000 (2014: HK\$430,000) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES

Year ended 31 December 2015:

On 30 June 2015, Freetech Smart Road Recycling Engineering Investment Limited ("Freetech Smart Road"), an indirect subsidiary which is 51% owned by the Company, and Tianjin Expressway Group, which was the then sole shareholder of Tianjin Expressway Maintenance (as defined in note 17), entered into a capital injection agreement, pursuant to which Freetech Smart Road has agreed to acquire a 55% equity interests in Tianjin Expressway Maintenance by way of subscribing for an additional registered capital of RMB24,444,400 (equivalent to approximately of HK\$30,556,000) at the total consideration of RMB46,802,400 (equivalent to approximately of HK\$58,503,000) (representing RMB24,444,400 (equivalent to approximately of HK\$30,556,000) as payment for the additional registered capital and RMB22,358,000 (equivalent to approximately of HK\$27,947,000) as capital reserve of Tianjin Expressway Maintenance). The investment consideration for the acquisition was in the form of cash, with approximately HK\$58,503,000 paid at the acquisition date. Upon completion on 31 August 2015, the registered capital of Tianjin Expressway Maintenance was RMB44,444,400 and Tianjin Expressway Maintenance was owned as to 55% and 45% equity interests by Freetech Smart Road and Tianjin Expressway Group respectively. At the same date, a revised Articles of Association was approved by the board of directors of Tianjin Expressway Maintenance, and the Group obtained the control in Tianjin Expressway Maintenance, and Tianjin Expressway Maintenance became a subsidiary of the Group. Tianjin Expressway Maintenance 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 Tianjin, PRC.

On 22 December 2015, the Group entered into a share purchase agreement with its joint venture partner to acquire a 25% equity interest in Futech Road Recycling (as defined in note 17), which was previously a 50% owned joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with approximately HK\$13,388,000 paid at the acquisition date. Together with the 50% equity interest held before the acquisition, the Group's interest in Futech Road Recycling increased to 75% after the acquisition. At the same date, the Group obtained the control in Futech Road Recycling, and Futech Road Recycling became a subsidiary of the Group. Futech Road Recycling 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 Fujian, PRC.

Consideration transferred:

	Futech Road Recycling HK\$'000	Tianjin Expressway Maintenance HK\$'000	Total HK\$'000
Cash	13,388	58,503	71,891
Fair value of equity interest previously held as investment in a joint venture	22,146	NA	22,146
	35,534	58,503	94,037

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES (Continued)

Consideration transferred: (Continued)

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

	Futech Road Recycling HK\$'000	Tianjin Expressway Maintenance HK\$'000	Total HK\$'000
Property, plant and equipment	40,205	12,120	52,325
Prepayment for acquisition of land use right	–	4,773	4,773
Inventories	–	22,408	22,408
Amount due from related parties	2,471	66,805	69,276
Trade and other receivables	1	29,530	29,531
Bank balances and cash	1,626	107,010	108,636
Trade and other payables	(7)	(142,607)	(142,614)
Income tax liabilities	(1)	(4,852)	(4,853)
	44,295	95,187	139,482

The fair value of trade and other receivables and amount due from related parties at the date of acquisition amounted to HK\$98,807,000, which approximates the gross contractual amount. There are no contractual cash flows not expected to be collected.

Goodwill arising on acquisition:

	Futech Road Recycling HK\$'000	Tianjin Expressway Maintenance HK\$'000	Total HK\$'000
Consideration transferred	35,534	58,503	94,037
Plus: non-controlling interests	11,074	42,834	53,908
Less: recognised amount of identifiable net assets acquired	(44,295)	(95,187)	(139,482)
Goodwill arising on acquisition	2,313	6,150	8,463

The non-controlling interests in Futech Road Recycling (25%) and Tianjin Expressway Maintenance (45%) recognised at the acquisition date, respectively, were measured by reference to the proportionate share of the recognised amounts of net assets of Futech Road Recycling and Tianjin Expressway Maintenance and amounted to HK\$11,074,000 and HK\$42,834,000, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES (Continued)

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

Net cash outflow (inflow) on the above acquisitions:

	Futech Road Recycling HK\$'000	Tianjin Expressway Maintenance HK\$'000	Total HK\$'000
Cash consideration paid	13,388	58,503	71,891
Less: cash and cash equivalents acquired	1,626	107,010	108,636
	11,762	(48,507)	(36,745)

Impact of the acquisitions on the results of the Group:

Included in the profit for the year ended 31 December 2015 was a profit of HK\$3,075,000 attributable to Tianjin Expressway Maintenance. Revenue for the year ended 31 December 2015 included HK\$191,207,000 from Tianjin Expressway Maintenance. There was no profit included in the profit attributable to Futech Road Recycling and no revenue generated from Futech Road Recycling for the year ended 31 December 2015.

Had the above acquisitions been completed on 1 January 2015, total group revenue for the year would have been HK\$689 million, and profit for the year would have been HK\$64 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

Year ended 31 December 2014:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES (Continued)

Year ended 31 December 2014: (Continued)

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

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

Consideration transferred:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

Goodwill arising on acquisition:

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

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

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

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For the year ended 31 December 2015

31. ACQUISITION OF SUBSIDIARIES (Continued)

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

Net cash outflow on the above acquisitions:

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

Impact of the acquisitions on the results of the Group:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. OPERATING LEASES

The Group as lessee

	2015 HK\$'000	2014 HK\$'000
Minimum lease payments paid for the year under operating leases for premises	27,996	5,379

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

	2015 HK\$'000	2014 HK\$'000
Within one year	4,211	1,995
In the second to fifth years inclusive	2,916	924
	7,127	2,919

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

33. CAPITAL COMMITMENTS

	2015 HK\$'000	2014 HK\$'000
Contracted for but not provided for in respect of the acquisition of property, plant and equipment	20,475	30,555
Contracted for but not provided for in respect of the acquisition of land use right	35,826	38,028
Contracted for but not provided for capital contributions payable to a joint venture	–	9,100
Authorised but not provided for in respect of the acquisition of property, plant and equipment	6,678	10,815

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For the year ended 31 December 2015

34. PLEDGE OF ASSETS

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

	2015 HK\$'000	2014 HK\$'000
Bank deposits	140,098	6,880

35. RETIREMENT BENEFIT SCHEMES

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

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

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

The total expense recognised in profit or loss of HK\$7,186,000 (2014: HK\$3,494,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2015, contributions of HK\$363,000 (31 December 2014: HK\$526,000) due in respect of the year ended 31 December 2015 had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. RELATED PARTY DISCLOSURES

During the year, other than those disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related companies:

(a) Related party transactions

Name	Sales of goods		Purchase of materials		Road maintenance service	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Nanjing Lujie (note 1)	613	–	–	17,464	–	–
Tianjin Expressway Group (note 2)	–	N/A	10,227	N/A	168,354	N/A
Subsidiaries of Tianjin Expressway Group	–	N/A	13,788	N/A	2,890	N/A
Associates of Tianjin Expressway Group	–	N/A	–	N/A	6,862	N/A

Notes:

- (1) Nanjing Lujie is a joint venture of the Group.
- (2) Tianjin Expressway Group is the non-controlling shareholder, holding 45% equity interests in Tianjin Expressway Maintenance (as defined in note 17), which the Group acquired a 55% interests in August 2015.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. RELATED PARTY DISCLOSURES (Continued)

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

Name of related parties	2015 HK\$'000	2014 HK\$'000
Nanjing Golden Rich (note 1)	–	34,553
Guangdong Suitong (note 1)	19,107	31,690
Nanjing Lujie (note 1)	1,669	10,472
Lianyungang Luda (note1)	358	380
Fuzhou Suda (note 1)	–	380
Futech Road Recycling (note 2)	–	100
Tianjin Expressway Group	120,597	–
Subsidiaries of Tianjin Expressway Group	3,220	–
Associates of Tianjin Expressway Group	9,828	–
	154,779	77,575

Notes:

- (1) These are joint ventures of the Group.
- (2) Futech Road Recycling was a joint venture previously but became a subsidiary of the Group during the year ended 31 December 2015.

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

Name of related parties	2015 HK\$'000	2014 HK\$'000
Nanjing Lujie	542	5,392
Nanjing Golden Rich	–	710
Fuzhou Suda	358	621
Quanzhou Futech Road Recycling (note)	–	532
Lianyungang Luda	358	–
Tianjin Expressway Group	45,893	–
Subsidiaries of Tianjin Expressway Group	13,569	–
	60,720	7,255

Note: Quanzhou Futech Road Recycling was a joint venture previously but became a subsidiary of the Group during the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Date, place/country of incorporation/establishment and form of structure	Issued and fully paid share/registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company		Principal activities
			2015	2014	
Freetech Road Recycling Engineering Limited (Note a)	British Virgin Islands — limited liability company 23 November 2009	Share — US\$2 (2014: US\$2)	100%	100%	Investment holding
BS (BVI) Limited (Note a)	British Virgin Islands —limited liability company 30 March 2011	Share — US\$1 (2014: US\$1)	100%	100%	Investment holding
Freetech Road Maintenance Engineering Co., Limited	Hong Kong — limited liability company 17 August 2001	Share — HK\$3 (2014: HK\$3)	100%	100%	Investment holding and sale of road maintenance equipment
BS (Int'l) Automobile Technology Co., Limited	Hong Kong — limited liability company 18 August 2004	Registered capital — HK\$1,000,000 (2014: HK\$1,000,000)	100%	100%	Investment holding and sale of road maintenance equipment
Freetech Road Recycling (as defined in note 13)	PRC — Wholly-foreign — owned enterprise 8 September 2000	Registered capital — US\$135,060,000 (2014: US\$135,060,000)	100%	100%	Provision of road maintenance services
南京奔騰養護機械有限公司 Nanjing BS Maintenance Machinery Company Limited	PRC — Wholly-foreign — owned enterprise 22 July 2009	Registered capital — US\$5,050,000 (2014: US\$5,050,000)	100%	100%	Sale of road maintenance equipment
Freetech Vehicle Manufacturing (as defined in note 13)	PRC — Sino-foreign joint venture 21 June 2005	Registered capital — US\$9,700,000 (2014: US\$9,700,000)	100%	100%	Manufacturing and sale of road maintenance equipment
Freetech Ordos (as defined in note 17)	PRC — Limited liability company 17 June 2011	Registered capital — RMB30,000,000 (2014: RMB30,000,000)	53%	53%	Provision of road maintenance services
新疆英達熱再生有限公司 Xinjiang Freetech Road Recycling Co., Ltd.	PRC — Limited liability company 8 June 2012	Registered capital — RMB10,000,000 (2014: RMB10,000,000)	100%	100%	Provision of road maintenance services

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For the year ended 31 December 2015

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

Name of subsidiary	Date, place/country of incorporation/establishment and form of structure	Issued and fully paid share/registered capital	Effective proportion of nominal value of issued share/registered capital held by the Company		Principal activities
			2015	2014	
延邊英達道路工程有限公司 Yanbian Freetech Road Engineering Co., Ltd.	PRC — Limited liability company 31 May 2012	Registered capital — RMB100,000 (2014: RMB100,000)	100%	100%	Provision of road maintenance services
Hunan Freetech Tongqu (as defined in note 17)	PRC — Limited liability company 11 April 2011	Registered capital — RMB35,000,000 (2014: RMB35,000,000)	59%	59%	Provision of road maintenance services
Suqian Hengtong (as defined in note 17)	PRC — Limited liability company 31 May 2012	Registered capital — RMB35,000,000 (2014: RMB35,000,000)	65%	65%	Provision of road maintenance services
Xinjiang Jianda (as defined in note 17)	PRC — Limited liability company 20 December 2012	Registered capital — RMB20,000,000 (2014: RMB20,000,000)	89%	89%	Provision of road maintenance services
Freetech Smart Road (as defined in note 31)	Hong Kong — limited liability company 11 August 2014	Registered capital — HK\$50,000 (2014: HK\$50,000)	51%	51%	Investment holding
Tianjin Expressway Maintenance (as defined in note 17)	PRC — Limited liability company 1 September 2009	Registered capital — RMB44,444,400	55%	NA	Provision of road maintenance services
Futech Road Recycling (as defined in note 17)	Hong Kong — limited liability company 15 May 2012	Registered capital — HK\$100,000,000	75%	NA (note b)	Investment holding
Quanzhou Futech Road Recycling (as defined in note 20)	PRC — Limited liability company 6 June 2012	Registered capital — HK\$63,000,000	75%	NA (note b)	Provision of road maintenance services

Notes:

(a): Directly held by the Company.

(b): Futech Road Recycling and Quanzhou Futech Road Recycling are previously joint ventures of the Group. Additional equity interests are acquired during the year and control is obtained, details of which are set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

At 31 December 2015, the Group has 21 (2014:15) subsidiaries. The above table lists the 17 (2014:14) subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length. At the end of the reporting period, the Company has 4 (2014:1) subsidiaries that are not material to the Group. These subsidiaries operate in the PRC and Hong Kong. The subsidiaries have not yet commenced operation. Out of the Group's total 21 (2014: 15) subsidiaries, 13 (2014:10) subsidiaries are wholly-owned by the Group. The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Freetech Ordos	PRC	47%	47%	(2,224)	(3,665)	13,354	16,440
Hunan Freetech Tongqu	PRC	41%	41%	4,254	(631)	17,553	14,295
Suqian Hengtong	PRC	35%	35%	(2,290)	(164)	9,158	12,054
Tianjin Expressway Maintenance	PRC	45%	NA	1,383	NA	43,437	NA
Futech Road Recycling	PRC	25%	NA	NA	NA	11,073	NA
Individually subsidiaries with immaterial non-controlling interests						3,367	1,804
						97,942	44,593

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Freetech Ordos

	2015 HK\$'000	2014 HK\$'000
Current assets	32,055	29,527
Non-current assets	13,772	17,400
Current liabilities	17,424	11,954
Equity attributable to owners of the Company	15,049	18,532
Non-controlling interests	13,354	16,441
Revenue	10,839	12,020
Expenses	15,572	19,817
Loss attributable to owners of the Company	(2,509)	(4,132)
Loss attributable to the non-controlling interests	(2,224)	(3,665)
Loss for the year	(4,733)	(7,797)
Other comprehensive expense attributable to owners of the Company	(973)	(227)
Other comprehensive expense attributable to the non-controlling interests	(863)	(202)
Other comprehensive expense for the year	(1,836)	(429)
Total comprehensive expense attributable to owners of the Company	(3,482)	(4,359)
Total comprehensive expense attributable to the non-controlling interests	(3,087)	(3,867)
Total comprehensive expense for the year	(6,569)	(8,226)
Dividends paid to non-controlling interests	–	–
Net cash outflow from operating activities	(505)	(1,433)
Net cash inflow (outflow) from investing activities	–	–
Net cash inflow from financing activities	–	–
Net cash outflow	(505)	(1,433)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Hunan Freetech Tongqu

	2015 HK\$'000	2014 HK\$'000
Current assets	24,306	4,942
Non-current assets	25,647	30,868
Current liabilities	7,197	1,000
Equity attributable to owners of the Company	25,203	20,515
Non-controlling interests	17,553	14,295

	1 January 2015 to 31 December 2015 HK\$'000	25 August 2014 to 31 December 2014 HK\$'000
Revenue	27,762	441
Expenses	17,388	1,981
Profit (loss) attributable to owners of the Company	6,120	(909)
Profit (loss) attributable to the non-controlling interests	4,254	(631)
Profit (loss) for the year/period	10,374	(1,540)
Other comprehensive (expense) income attributable to owners of the Company	(1,433)	76
Other comprehensive (expense) income attributable to the non-controlling interests	(996)	53
Other comprehensive (expense) income for the year/period	(2,429)	129
Total comprehensive income (expense) attributable to owners of the Company	4,687	(833)
Total comprehensive income (expense) attributable to the non-controlling interests	3,258	(578)
Total comprehensive income (expense) for the year/period	7,945	(1,411)
Dividends paid to non-controlling interests	–	–
Net cash outflow from operating activities	(1,483)	(1,805)
Net cash (outflow) inflow from investing activities	(661)	5
Net cash inflow from financing activities	2,488	–
Net cash inflow (outflow)	344	(1,800)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Suqian Hengtong

	2015 HK\$'000	2014 HK\$'000
Current assets	2,663	3,846
Non-current assets	25,119	30,887
Current liabilities	1,666	341
Equity attributable to owners of the Company	16,958	22,338
Non-controlling interests	9,158	12,054

	1 January 2015 to 31 December 2015 HK\$'000	27 November 2014 to 31 December 2014 HK\$'000
Revenue	585	–
Expenses	7,128	468
Loss attributable to owners of the Company	(4,253)	(304)
Loss attributable to the non-controlling interests	(2,290)	(164)
Loss for the year/period	(6,543)	(468)
Other comprehensive (expense) income attributable to owners of the Company	(1,124)	127
Other comprehensive (expense) income attributable to the non-controlling interests	(606)	68
Other comprehensive (expense) income for the year/period	(1,730)	195
Total comprehensive expense attributable to owners of the Company	(5,377)	(177)
Total comprehensive expense attributable to the non-controlling interests	(2,896)	(96)
Total comprehensive expense for the year/period	(8,273)	(273)
Dividends paid to non-controlling interests	–	–
Net cash (outflow) inflow from operating activities	(1,310)	11
Net cash inflow (outflow) from investing activities	–	–
Net cash inflow from financing activities	871	–
Net cash (outflow) inflow	(439)	11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Tianjin Expressway Maintenance

	2015 HK\$'000
Current assets	300,607
Non-current assets	14,562
Current liabilities	218,592
Equity attributable to owners of the Company	53,140
Non-controlling interests	43,437
	1 September 2015 to 31 December 2015 HK\$'000
Revenue	191,207
Expenses	188,132
Profit attributable to owners of the Company	1,692
Profit attributable to the non-controlling interests	1,383
Profit for the period	3,075
Other comprehensive expense attributable to owners of the Company	(955)
Other comprehensive expense attributable to the non-controlling interests	(780)
Other comprehensive expense for the period	(1,735)
Total comprehensive income attributable to owners of the Company	737
Total comprehensive income attributable to the non-controlling interests	603
Total comprehensive income for the period	1,340
Dividends paid to non-controlling interests	–
Net cash inflow from operating activities	19,695
Net cash outflow from investing activities	(78)
Net cash inflow (outflow) from financing activities	–
Net cash inflow	19,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Futech Road Recycling

	2015 HK\$'000
Current assets	4,098
Non-current assets	40,205
Current liabilities	8
Equity attributable to owners of the Company	33,222
Non-controlling interests	11,073
	23 December 2015 to 31 December 2015 HK\$'000
Revenue	–
Expenses	–
Profit attributable to owners of the Company	–
Profit attributable to the non-controlling interests	–
Profit for the period	–
Other comprehensive income attributable to owners of the Company	–
Other comprehensive income attributable to the non-controlling interests	–
Other comprehensive income for the period	–
Total comprehensive income attributable to owners of the Company	–
Total comprehensive income attributable to the non-controlling interests	–
Total comprehensive income for the period	–
Dividends paid to non-controlling interests	–
Net cash inflow from operating activities	–
Net cash inflow from investing activities	–
Net cash inflow from financing activities	–
Net cash inflow	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2015 HK\$'000	2014 HK\$'000
ASSETS		
Property, plant and equipment	974	1,466
Investments in subsidiaries	1,253,923	1,253,923
Prepayments, deposits and other receivables	1,052	4,003
Dividend receivable	241,352	178,352
Amounts due from subsidiaries	626,405	388,055
Amounts due from a joint venture	–	43,625
Time deposits	–	210,209
Bank balances and cash	2,550	18,098
	2,126,256	2,097,731
LIABILITIES		
Other payables and accruals	1,672	1,752
Bank borrowing	16,200	–
	17,872	1,752
NET ASSETS	2,108,384	2,095,979
CAPITAL AND RESERVES		
Share capital	107,900	107,900
Reserves	2,000,484	1,988,079
Total equity	2,108,384	2,095,979

The Company's statement of financial position was approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

Mr. Sze Wai Pan
DIRECTOR

Ms. Sze Wan Nga
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Movement in reserves

	Share premium HK\$'000	Contributed surplus HK\$'000 (note)	Shares held under the share award scheme HK\$'000	Share-based compensation reserve HK\$'000	Retained earnings HK\$'000	Foreign currency translation reserve HK\$'000	Total HK\$'000
At 1 January 2014	732,463	1,253,901	-	-	61,698	-	2,048,062
Profit for the year	-	-	-	-	18,845	-	18,845
Other comprehensive expense for the year	-	-	-	-	-	(314)	(314)
Total comprehensive income (expense) for the year	-	-	-	-	18,845	(314)	18,531
Share held under the share award scheme	-	-	(19,724)	-	-	-	(19,724)
Equity-settled share award scheme (note 30)	-	-	-	430	-	-	430
Equity-settled share option arrangements (note 29)	-	-	-	125	-	-	125
Dividend recognised as distribution	-	-	-	-	(59,345)	-	(59,345)
At 31 December 2014	732,463	1,253,901	(19,724)	555	21,198	(314)	1,988,079
Profit (loss) for the year	-	-	-	-	36,043	-	36,043
Other comprehensive income for the year	-	-	-	-	-	431	431
Total comprehensive income (expense) for the year	-	-	-	-	36,043	431	36,474
Share held under the share award scheme	-	-	(10,032)	-	-	-	(10,032)
Equity-settled share award scheme (note 30)	-	-	-	1,633	-	-	1,633
Equity-settled share option arrangements (note 29)	-	-	-	515	-	-	515
Dividend recognised as distribution	-	-	-	-	(16,185)	-	(16,185)
Transfer of awarded shares upon vesting	-	-	3,172	(2,063)	(1,109)	-	-
At 31 December 2015	732,463	1,253,901	(26,584)	640	39,947	117	2,000,484

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

FINANCIAL SUMMARY

	Year ended 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
RESULTS					
Turnover	616,641	390,434	628,709	486,003	281,279
Profit before taxation	77,621	65,515	219,995	193,003	83,065
Taxation	11,913	11,465	39,944	42,630	20,915
Profit for the year	65,708	54,050	180,051	150,373	62,150

	As at 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
ASSETS AND LIABILITIES					
Total assets	1,703,781	1,363,792	1,469,073	636,438	441,521
Total liabilities	462,904	149,552	254,858	393,689	372,211
Net assets	1,240,877	1,214,240	1,214,215	242,749	69,310



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