Freetech
英達科技

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

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註册成立的有限公司)

Stock Code 股份代號: 6888

公路醫生®

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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
Dr. Chan Yan Chong
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.freetech-holdings.hk

FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

	Year ended 31 December		
	2016	2015	Increase/
	HK$'000	HK$'000	(decrease)
Revenue	**495,598**	616,641	(19.6%)
Gross profit	**179,270**	185,848	(3.5%)
Profit attributable to owners of the Company	**43,138**	64,502	(33.1%)
Earnings per share (Basic) (HK cents)	**4.06**	6.07	(33.1%)
Proposed final dividend per share (HK cents)	**–**	1.8	N/A

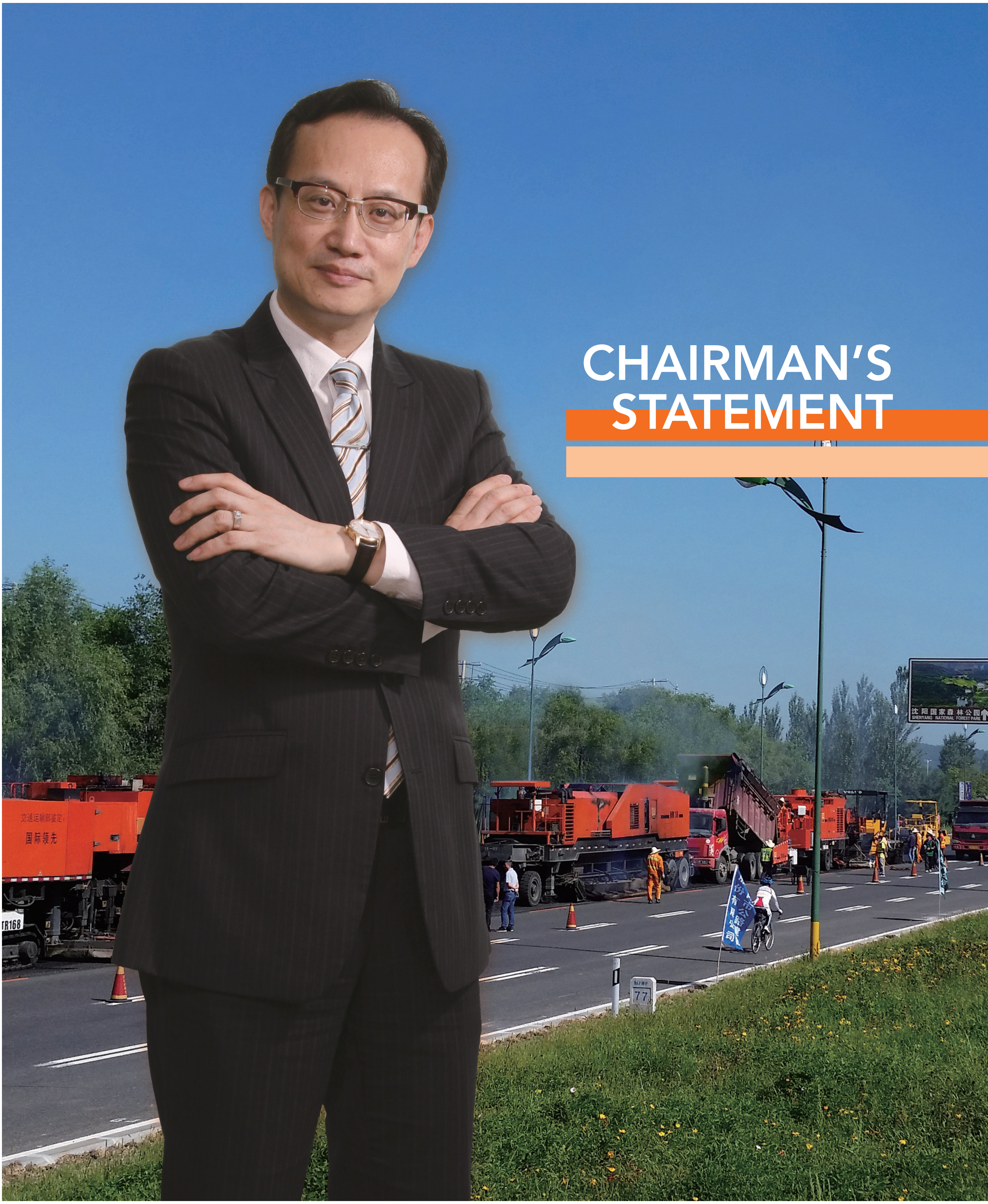
FINANCIAL POSITION

	31 December		
	2016	2015	Increase/
	HK$'000	HK$'000	(decrease)
Time deposits, pledged bank deposits, structured bank deposits and bank balances and cash	**326,209**	479,035	(31.9%)
Bank borrowings	**139,601**	72,325	93.0%
Equity attributable to owners of the Company	**1,096,705**	1,142,935	(4.0%)

KEY FINANCIAL RATIOS

Gross profit margin	**36.2%**	30.1%	20.3%
Net profit margin	**9.0%**	10.7%	(15.9%)
Return on assets	**2.7%**	3.9%	(30.8%)
Current ratio	**2.4**	2.8	(14.3%)

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 2016.

PERFORMANCE

The Year 2016 was a challenging year for the Group. Revenue of the Group's APM equipment segment increased significantly during the year, however the local government in the People's Republic of China (the "PRC") has made more effort in the overall road construction and maintenance planning in 2016 (the beginning year of the PRC's 13th Five-year Plan), therefore, road maintenance projects assigned were deferred. As a result, the revenue of the asphalt pavement maintenance services segment decreased. The Group's operating revenue and total profit attributable to owners of the Company was HK$495.6 million and HK$43.1 million respectively, representing a decrease of 19.6% and 33.1% respectively as compared to 2015. Despite of this, the Group maintains its leading position in the use of "Hot-in-Place" recycling technology in the APM industry in the PRC.

OUTLOOK

With the green development concept encouraged by the PRC government and the upcoming peak in road maintenance cycle in PRC during the period of "13th Five-year Plan", the Group's business is expected to be dually benefited from the opportunities brought by the national policies and the market.

After a series of national policies issued in the PRC, including the Outline of Road Maintenance, Management and Development under 13th Five-year Plan* (「十三五公路養護管理發展綱要」), the Plan of Transport Energy Conservation and Environment Protection under 13th Five-year Plan* (「交通運輸節能環保『十三五』發展規劃」), the Guidance on the Implementation of Green Highway Construction* (「關於實施綠色公路建設的指導意見」) and the Policy of Maintaining City Environment and Restoring Eco-system* (「城市雙修」), the road maintenance industry in the PRC has entered into a golden age of environmental friendly maintenance technologies. It is expected that the Group's green maintenance technology which will 100% reuse road materials will be widely promoted and applied.

China has become the top owner of highway in the world. The PRC's highway construction in the "13th Five-year Plan" period will enter into a new stage, and demand for road maintenance will gradually increase. In addition, according to the statistics conducted by the Ministry of Transport, as of the end of the "12th Five-Year Plan", mileage of road maintenance reached 4.466 million kilometers, and the road maintenance ratio reached 97.6%. In the end of "13th Five-Year Plan", the national road maintenance's mileage is expected to reach 5 million kilometers, and enter into a peak of road maintenance cycle. Upon commencement of the road maintenance cycle, the annual demand for equipment is expected to exceed RMB20 billion, and the annual investment of road maintenance service will exceed RMB200 billion, which will bring huge development opportunities for the development of PRC's highway construction and maintenance industry.

CHAIRMAN'S STATEMENT

Benefiting from the development of China and the PRC market, the Group, as a market leader using "Hot-in-Place" recycling technology in the asphalt pavement maintenance industry, has since a long time ago expanded its business across the country and secured a leading position in the market with its one-stop solution and is set to reap rewards from its previous sowing. Meanwhile, the Group has maintained a steady growth by leveraging its competitive strengths and taking advantage of favorable policies. The Group will continue to increase R&D spending and strengthen research infrastructure development. With the launch of the mega-size flagship project, the "Global Road Technology R&D Centre", the Group will get into the fast lane of technology R&D in a sound and sustainable way. The Group will also step up market development by consolidating its position in the domestic market on the one hand and expanding globally on the other hand. The Group has sold its modular and standard series equipment to overseas markets such as the Republic of Korea and Macau and, the Group will continue to seek opportunities to expand to "One Belt One Road" countries and other overseas regions, such as Taiwan, Singapore and India. At the same time, the Group has made active efforts to diversify its business and stretch its presence on the industry chain by exploring big data development applications and expanding the scope of its financial services. Furthermore, the Group has entered into a cooperation agreement with the Jurong Municipal Government of Jiangsu Province to co-develop a series of road projects and take charge of their management, supervision and operation and has completed those projects that the Group is responsible for during the year. Continuing to leverage its innovative cooperation models and taking advantage of the PRC government's policy of encouraging the public-private partnership model ("PPP model") (a collaborative investment model between government and private companies) in infrastructure construction, the Group will promote road lifecycle maintenance and extend its business reach to the RMB one trillion market of outsourcing of municipal road service.

Looking ahead, witnessing the huge market demand and opportunities, the Group believes its business will enjoy a rapid growth in the future. Meanwhile, the Group will continue to contribute to the community, and to create better returns for 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 our business partners, customers and shareholders for their strong support.

Chairman
Mr. Sze Wan Pan
30 March 2017

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Year 2016 was a challenging and volatile year as the global monetary market fluctuated and the PRC economic growth slowed down. Regardless of the above, green economy development remained a top priority for the national development as suggested by the PRC government in the 13th Five-year Plan. Therefore, the road recycling technology industry maintained a relatively stable development.

During the year under review, the existing businesses of the Group recorded a decrease in revenue and profit mainly due to the net effect of the following factors: (1) 2016 was the year after the Ministry of Transport conducting road inspections on highways in 2015 and the beginning year of PRC's 13th Five-year Plan, the local government has made more effort in the overall road construction and maintenance planning and therefore, fewer road maintenance projects were assigned, therefore the revenue of the Group's asphalt pavement maintenance ("APM") services segment decreased in 2016, and (2) the continuing demand of the Group's standard and modular series equipment as more local government is focusing on green economy development on road maintenance industry, the Group successfully bid an equipment bulk procurement project with Hainan Province Highway Department* (海南省公路管理局) and stepped into the international market through selling a modular series equipment to a customer in the Republic of Korea, which marked a milestone of the Group's business, therefore the revenue of the Group's APM equipment segment increased. The Group continued to be a leading integrated solution provider using "Hot-in-Place" technology in the APM industry in the PRC. As at 31 December 2016, the Group had a total of 11 joint ventures engaging in the provision of APM services and 12 franchisees to promote the Group's "Hot-in-Place" technology in certain cities in the PRC.

In 2016, the Group's operating revenue was approximately HK$495.6 million, representing a decrease of approximately 19.6% as compared to 2015. Total profit attributable to owners of the Company was approximately HK$43.1 million, representing a decrease of approximately 33.1% as compared to 2015. As at 31 December 2016, the Group remained a healthy financial position as it had cash on hand in the sum of approximately HK$326.2 million.

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 disclosed above, the local government has made more effort in the overall road construction and maintenance planning and therefore, fewer road maintenance projects were assigned during the year. As a result, the Group completed 2.9 million square meters of APM services (2015: 3.9 million square meters), representing a decrease of 25.6% as against 2015. In addition, as RMB has weakened and the Value-Added Tax ("VAT") reform was implemented, and the reduced selling price of some of the APM projects conducted during the year as a result of the exclusion of the raw material cost of asphalt mixture at the request of certain customer(s), the APM services segment recorded revenue of approximately HK$324.1 million, representing a decrease of 39.5% as against 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

APM Equipment

During the year under review, as a result of the local government's focus on green economy development on road maintenance industry, there is a continuing demand on the Group's standard and modular series equipment. The Group successfully bid an equipment bulk procurement project with Hainan Province Highway Department and stepped into the international market through selling a modular series equipment to a customer in the Republic of Korea. Our APM equipment segment generated a revenue of HK$171.5 million, representing an increase of 112.0% as against 2015. 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 the PRC market.

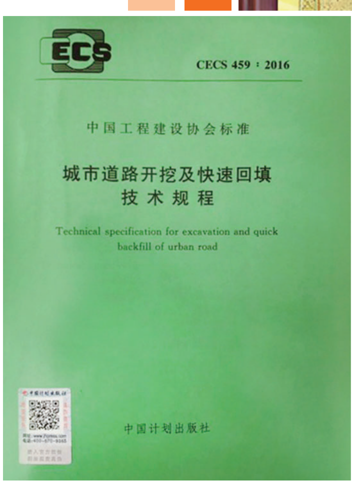
Research and Development

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

New Patents

The Group continued to invest significant resources in our research and development efforts. As of 31 December 2016, we had registered 120 patents (31 December 2015: 111), of which 13 were invention patents (31 December 2015: 11), 91 were utility model patents (31 December 2015: 87) and 16 were design patents (31 December 2015: 13), and we had 17 pending patent applications, of which 9 are invention patents and 8 are utility model patents (31 December 2015: 11 pending invention patent applications).

During the year under review, the Group consistently enhanced its investment in research and development, and further strengthened its research and development capabilities so as to overcome certain technological limitations in the APM service industry.



MANAGEMENT DISCUSSION AND ANALYSIS

After UCAS Freetech Ecological Science and Technology Research Centre ("UCAS Freetech Centre") (jointly set up by the Company and Management of University of Chinese Academy of Sciences (中國科學院大學管理學院) ("Management School UCAS")) was officially unveiled in Beijing last year, the Master of Business Administration and the Master of Engineering programs jointly set up by the Company and Management School UCAS officially commenced in the first half of 2016. In order to fill the gaps in the training and education of the senior talents in road maintenance and management, these courses are the first domestic master courses focusing on road maintenance and management direction, integrating the resources from the Management School UCAS and the Company. This will bring changes in training talents and upgrading research and development of future road maintenance industry, as well as incubate and develop new technologies and products and provide application analysis on new technologies and products.

During the year under review, the Technical Specification for Urban Road Excavation and Quick Backfill《城市道路開挖及快速回填技術規程》compiled by the Group has been approved for publication by the Professional Committee of Urban Transportation (城市交通專業委員會) affiliated to the China Association of Engineering Construction Standardization (中國工程建設標準化協會), which came into effect on 1 March 2017. The official release and implementation of the Technical Specification for Urban Road Excavation and Quick Backfill will provide guidance for material selection and mix design, and support cycle-time reduction, operation standardization and quality assurance. It can also help to guide operation, accelerate the implementation of the new technology, and finally further enhance the Group's leading position in this field.

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

Green economy development remains a top priority for the PRC government according to the 13th Five-year Plan. The plan also suggested the transportation system adhering to the use of environmental friendly and recycling road maintenance technologies. With our Hot-in-Place recycling technology, the Group will benefit from the increasing demand for APM in the PRC, especially those using the recycling technologies.

In the coming year, we have identified valuable opportunities for the Group's development. Firstly, as at 31 December 2015, the total mileage for highway in the PRC has reached 4.6 million miles (second longest in the world) and the expressway mileage has reached 120,000 miles (the longest in the world). Therefore, it offers us the largest road maintenance market and huge room to grow. Secondly, the PRC government has encouraged the adoption of PPP, a collaborative investment model between government and private companies, in infrastructure projects amid concerns over heavy local government debt. As the government tends to choose experienced partners with mature development of related technology, it is favorable to the Group to acquire more projects. Following the Group's successfully bid for the public-private partnership road construction project ("PPP Project") in Jurong City, the Group will continue to seek for other PPP Project opportunities in other cities in the PRC. By the end of 2015, 1,351 PPP-funded projects signed has a combined investment of 2.2 trillion yuan. We expect the PPP Projects opportunities to further improve our business performance with a massive demand for intercity and municipal road renovation and maintenance due to the continuing urbanization. Thirdly, it is a breakthrough for the Company to enter into the international market by selling a modular series equipment to a customer in the Republic of Korea. The Company will continue to explore the overseas business opportunities and strategic cooperations with other companies, such as some listed companies and large-scale or state-owned enterprises. The Group is putting effort to promote its overseas business opportunities in the countries along the "One Belt One Road" and four Asian tigers. In light of these, the Group is well positioned to benefit from the government's policies and the positive development prospects in the environmental protection sector.

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 into new markets and enlarge its share in the existing markets by the following: first, it will increase its investment in setting up more sales offices in different PRC cities and dispatch more salespersons to maintain its leading position in the provision of APM services; second, it will increase its investment in adding 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 relevant state-owned enterprise reforms 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 under review, with comparisons against 2015.

1. Revenue:

a. APM Services

	Year ended 31 December				
	2016		2015		
	HK$'000	Area serviced (square meters '000)	HK$'000	Area serviced (square meters '000)	Increase/ (decrease)
Revenue (net of VAT and BT)					
"Hot-in-Place" Projects	**209,787**	**2,910**	366,660	3,926	(42.8%)
Non-"Hot-in-Place" Projects	**114,270**	**–**	169,049	–	(32.4%)
Total	**324,057**		535,709		(39.5%)

	Year ended 31 December				
	2016		2015		Increase/
	HK$'000	Margin	HK$'000	Margin	(decrease)
Gross profit					
"Hot-in-Place" Projects	**63,045**	**30.1%**	134,667	36.7%	(53.2%)
Non-"Hot-in-Place" Projects	**6,532**	**5.7%**	7,987	4.7%	(18.2%)
Total	**69,577**	**21.5%**	142,654	26.6%	(51.2%)

Revenue and gross profit for this segment both decreased as compared to 2015. 2016 was the year after the Ministry of Transport conducting road inspections on highways in 2015 and the beginning year of PRC's 13th Five-year Plan, the local government has made more effort in the overall road construction and maintenance planning, and therefore, fewer road maintenance projects were assigned. Therefore the Company's APM services segment for "Hot-in-Place" projects and non-"Hot-in-Place" projects decreased accordingly. In addition, due to the weakening of RMB, the implementation of the VAT reform resulting the Group to incur 11% VAT instead of 3% business tax, and the reduced selling price of some of the APM projects conducted during the year as a result of the exclusion of the raw material cost of asphalt mixture at the request of certain customer(s), revenue in 2016 decreased by approximately 39.5% as compared to 2015. However, after the road construction and maintenance planning stage conducted by the local government in 2016, it is expected that the number of the road construction and maintenance projects will start to roll out in 2017 onwards.

The gross profit margin in this segment decreased from approximately 26.6 % in 2015 to approximately 21.5% in 2016. This was mainly due to net effect of (i) the implementation of VAT reform; and (ii) the decrease in APM serviced area of "Hot-in-Place" projects resulted a higher cost per square meter as the requirement of incurring some fixed cost regardless of the total serviced area, resulting decrease in gross profit of "Hot-in-Place" projects.

MANAGEMENT DISCUSSION AND ANALYSIS

b. APM Equipment

	Year ended 31 December				
	2016		2015		
	HK$'000	**units/ sets**	HK$'000	units/ sets	Increase/ (decrease)
Revenue (net of VAT)					
Standard series	**63,678**	**52**	51,028	35	24.8%
Modular series	**102,624**	**5**	23,388	1	338.8%
Repair and maintenance	**5,239**	**N/A**	6,516	N/A	(19.6%)
Total	**171,541**		80,932		112.0%

	2016		2015		Increase/
	HK$'000	**Margin**	HK$'000	Margin	(decrease)
Gross profit					
Standard series	**35,883**	**56.4%**	24,347	47.7%	47.4%
Modular series	**70,362**	**68.6%**	15,480	66.2%	354.5%
Repair and maintenance	**3,448**	**65.8%**	3,367	51.7%	2.4%
Total	**109,693**	**63.9%**	43,194	53.4%	154.0%

Revenue for the APM equipment segment for 2016 was increased by approximately 112.0% as compared to 2015. This increase was primarily due to the continuing demand of the Group's standard and modular series equipment as more local government in the PRC is focusing on green economy development on road maintenance industry, the Group successfully bid an equipment bulk procurement project and stepped into the international market through selling a modular series equipment to a customer in the Republic of Korea.

Overall gross profit margin for this segment increased from approximately 53.4% in 2015 to approximately 63.9% in 2016 due to the fact that more revenue was generated from higher gross profit margin modular series equipment.

2. Other Gains and Losses

Other gains and losses for the year under review increased by approximately HK$11.8 million, from approximately HK$3.1 million in 2015 to approximately HK$14.9 million in 2016, primarily due to the net effect of (i) the recognition of impairment loss of goodwill in 2015; (ii) the increase in impairment of trade receivables; (iii) the decrease in net foreign exchange losses; and (iv) the decrease in fair value gain from remeasurement 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 was decreased by approximately 20.4% or approximately HK$4.6 million, from approximately HK$22.5 million in 2015 to approximately HK$17.9 million in 2016 which was in line with the decrease in revenue.

4. Administrative Expenses

Administrative expenses were increased by approximately 3.6%, as against 2015 which was relatively stable.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Share of Profits and Losses of Joint Ventures

The Group's share of losses from joint ventures was approximately HK$1.9 million in 2016. In 2015, the Group's share of profits from joint ventures was approximately HK$2.6 million.

The losses from these joint ventures are primarily due to the instability of their businesses and the local government has made more effort in the overall road construction and maintenance planning, and therefore, fewer road maintenance projects were assigned.

6. Finance Costs

Finance costs were increased by approximately HK$1.6 million, or approximately 123.1%, from approximately HK$1.3 million in 2015 to approximately HK$2.9 million in 2016, primarily due to the new loans drawn down during the year under review in order to cope with the Group's business development.

7. Taxation

Income tax expenses was decreased by approximately HK$1.2 million, or approximately 10.1%, from approximately HK$11.9 million in 2015 to approximately HK$10.7 million in 2016 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 decreased by approximately HK$21.4 million, or approximately 33.1%, from approximately HK$64.5 million in 2015 to approximately HK$43.1 million in 2016, primarily due to the net effect of (i) the decrease in revenue from the APM services segment due to the decrease in total area serviced for "Hot-in-Place" projects and the revenue of "non-Hot-in-Place" projects; (ii) the increase in revenue from the APM equipment segment due to the increase in sale of standard and modular series; (iii) the decrease in gross profit margin of APM services segment due to the implementation of the VAT reform in the PRC and the decrease in APM serviced area of "Hot-in-Place" projects which resulted in a higher cost per square meter as the requirement of incurring some fixed cost regardless of the total serviced area; and (iv) the increases in other gains and losses, the decreases in selling and distribution costs and the decreases in research and development costs.

9. Financial Position

As at 31 December 2016, the total equity of the Group amounted to approximately HK$1,190.0 million (2015: HK$1,240.9 million). Decreases in the total equity of the Group was due to the net effect of (i) decrease in net profit for the year of 2016; (ii) distribution of dividend; and (iii) 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 2016 amounted to approximately HK$623.0 million (2015: HK$815.6 million). The current ratio, which is the amount of the current assets divided by the amount of the current liabilities as at 31 December 2016, was 2.4 (31 December 2015: 2.8). The decrease in the net current assets and current ratio was mainly due to the decreased in cash and bank deposit balances for the acquisition of land use rights and subsidiaries, and the purchase of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Liquidity and Financial Resources and Capital Structure

As at 31 December 2016, the Group's bank balances and cash, time deposits, pledged bank deposits and structured bank deposits amounted to approximately HK$326.2 million (31 December 2015: HK$479.0 million). The decrease was primarily due to the net effect of net cash used in operating activities, purchase of property, plant and equipment, investment in joint ventures, net cash outflow on acquisitions of subsidiaries, prepayment for acquisition of land use rights and bank borrowing raised. As at 31 December 2016, the bank borrowings of the Group amounted to HK$139.6 million (31 December 2015: HK$72.3 million). As at 31 December 2015 and 2016, the Group was in a net cash position.

In order to expand the market share of road recycling maintenance industry, the Group is willing to provide a longer credit term to specific customers. As a result, the trade receivables balance of approximately HK$59.7 million was classified as non-current assets. Accordingly, the trade receivables balance increased from approximately HK$714.6 million as of 31 December 2015 to approximately HK$727.1 million as of 31 December 2016. As at latest practicable date, third party customers had settled trade receivables amounting to approximately HK$76.8 million (RMB68.8 million).

Though the Group does not have any collateral over most of the receivables, the management considers that there is no recoverability problem as the remaining amounts are due from the local PRC government authorities. In order to minimise the risk of placing heavy reliance on obtaining project from the local PRC government and to further diversify the overall credit risk, the Group will widen its customer base. For those customers whose credit terms are extended by the Group, the Group has policies in place to evaluate the credit risk for these customers, taking into account of its repayment ability and long term relationship with the Group.

As at 31 December 2016, 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 2016, the Group had total debt of HK$139.6 million, which comprised of secured interest-bearing bank borrowings of HK$86.0 million and unsecured interest-bearing bank borrowings of HK$53.6 million. 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 2016, the secured interest-bearing bank borrowings were secured by pledge of bank balances of approximately HK$46.8 million and trade receivables of approximately HK$49.1 million.

The maturity profile of the interest-bearing bank borrowings as at 31 December 2015 and 2016 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 2016 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

	Available	Net Proceeds Utilised	Unutilised
	HK$ million	HK$ million	HK$ million
Investment in research and development activities	137.4	137.4	–
Establishing joint ventures and expanding APM service teams	137.4	78.3	59.1
Manufacturing APM equipment and expanding our APM service teams	103.1	73.5	29.6
Acquisitions of other APM service providers	103.0	53.6	49.4
Constructing new production facility	68.7	60.7	8.0
Establishing sales offices in new markets and marketing expenses	68.7	56.5	12.2
General corporate purposes and working capital requirements	68.7	68.7	–
	687.0	528.7	158.3

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

(i) Pursuant to the cooperation agreement dated 27 March 2015 entered between the Company and 江蘇省句容市住房和城鄉建設局 (Jurong City Housing and Urban Rural Development Bureau*), on 23 August 2016, Freetech Road Recycling Corporation, an indirect wholly-owned subsidiary of the Company, and 句容市城市投資建設有限責任公司 (Jurong Municipal Construction Investment Co., Ltd.*) ("JV Partner") entered into the joint venture contract ("Joint Venture Contract"), pursuant to which the parties to the Joint Venture Contract agreed to establish the public-private-partnership company ("PPP Company") in Jurong City (句容市), Jiangsu Province, the PRC with registered capital of RMB100,000,000. Pursuant to the terms of the Joint Venture Contract, the PPP Company shall be owned as to 80% and 20% by Freetech Road Recycling Corporation and the JV Partner, respectively, and the PPP Company would be a platform for a series of projects involving management, supervision and operation of a new public road in Shanglupian District* (上路片區) of Jurong City. For details, please refer to the Company's announcement dated 23 August 2016.

(ii) In December 2016, the Group entered into a share purchase agreement with its joint venture partner, 南京浩德科技發展有限公司 (Nanjing Haode Technology Development Co., Ltd.*), to acquire further 65% equity interest in 福州速達道路養護工程有限公司 (Fuzhou Suda Road Maintenance Engineering Co., Ltd.*) ("Fuzhou Suda"), which was previously a 35% owned joint venture of the Group. The purchase consideration for the acquisition was RMB10,750,000 (equivalent to approximately HK$12,009,000) which shall be paid within two months after change of the registration of the shareholding. Together with the 35% equity interest held before the acquisition, the Group's interest in Fuzhou Suda increased to 100% after the acquisition. On the same date, a revised Articles of Association was approved by the board of directors of Fuzhou Suda and Fuzhou Suda became a wholly-owned subsidiary of the Group. Fuzhou Suda is principally engaged in provision of road maintenance services. The acquisition was as part of the Group's strategy to penetrate into the market of road maintenance services in Fuzhou, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) On 30 December 2016, the Group subscribed for additional capital of RMB13,300,000 (equivalent to approximately HK$14,165,000) in 廣東穗通道路再生工程有限公司(Guangdong Suitong Road Recycling Engineering Co., Ltd.*) ("Guangdong Suitong"). Upon completion of the subscription, the Group's interest in Guangdong Suitong increased from 51% to 94.19%. On the same date, a revised Articles of Association was approved by the board of directors of Guangdong Suitong, and the Group obtained the control in Guangdong Suitong, and Guangdong Suitong became a subsidiary of the Group. Guangdong Suitong is principally engaged in provision of road maintenance services. The acquisition was as part of the Group's strategy to penetrate into the market of road maintenance services in Guangdong, the PRC; and

(iv) On 30 December 2016, Freetech Real Estate (Nanjing) Co. Ltd. ("Freetech Nanjing"), an indirect wholly-owned subsidiary of the Company, and 南京市國土資源局 (Nanjing Municipal Land Resources Bureau*) ("Land Bureau") entered into a contract, pursuant to which Freetech Nanjing agreed to purchase and the Land Bureau agreed to sell the land use rights of a parcel of land in Nanjing, the PRC, at a consideration of approximately RMB140,050,000 (the "Consideration"), which shall be payable by Freetech Nanjing to the Land Bureau in cash. The Consideration is fully settled on 21 March 2017. For details, please refer to the Company's announcement dated 30 December 2016.

Save as disclosed above, during the year under review, there were no other 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 2016 are set out in note 34 to the financial statements. As at 31 December 2016, 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. As at 31 December 2016, approximately 78.4% and 21.6% (as at 31 December 2015: nil and 100%) of the Group's bank borrowings are at fixed interest rate and floating interest rate, respectively. 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. As at 31 December 2016, certain time deposit, bank balances and cash, pledged bank deposits and structured bank deposits of approximately HK$313,862,000 (2015: HK$465,672,000) are denominated in RMB, the remaining balances are mainly denominated in Hong Kong dollars. As at 31 December 2016, the Group's bank borrowings denominated in RMB, HK$ and US$ amounted to HK$109,476,000 (equivalent to RMB98,000,000) (as at 31 December 2015: nil), HK$3,000,000 (as at 31 December 2015: HK$45,200,000) and HK$27,125,000 (equivalent to US$3,500,000) (as at 31 December 2015: HK$27,125,000 (equivalent to US$3,500,000)). The Group has not hedged its foreign currency risk. The changes in foreign currency translation reserve during the year under review was the 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 has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

MANAGEMENT DISCUSSION AND ANALYSIS

16. Employees and Remuneration

As at 31 December 2016, the Group had a total of 637 full time employees (as at 31 December 2015: 667). 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.

17. Environmental Policy

The Group initiates and strives to minimize our environmental impact by using its unique technology to repair the damage asphalt payment surfaces and able to achieve 100% recycling damaged pavement materials. The Group operates in an environmental-friendly manner to promote and achieve sustainable development. Its environmental policies and measures reflect its commitment to minimising the environmental impact of its operations. During the year under review, the Group complies with the relevant environmental regulations and rules and possess all necessary permission and approval from the PRC regulators.

18. Compliance with Relevant Laws and Regulations

The Group's operations are carried out by the Company's subsidiaries in the PRC and Hong Kong. Our operations are regulated by PRC and Hong Kong law. During the year under review and up to date of this report, we have complied with the relevant laws and regulations that have significant impact in the PRC and Hong Kong.

19. Relationships with Stakeholders

The Group recognizes that employees, customers, suppliers, research partners, government and other public bodies are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services and products to its customers and enhancing cooperation with its business partners. The Group provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and industry and, at the same time, improve their ability, performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide highest standard of services and products which satisfy the needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand. The Group has also established procedures to handle customers' feedbacks and complaints to ensure customers' opinions are dealt with in a prompt and timely manner.

The Group maintains sound business relationship with suppliers, research partners, government and other public bodies through business visits, group discussion and seminars. These activities would allow the Group to better understand the stakeholders' views to develop the Group's sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

20. Principal Risks and Uncertainties

Certain principal risks and uncertainties facing the Group may affect its business, operating results and its financial conditions, including:

(i) Industry risk in the PRC

The Group generates a substantial portion of revenue from the PRC local government through selling of APM equipment and providing of APM services. Our APM equipment and services are used in the road maintenance sector and the development of our business depends on the sustained growth of this sector in the PRC. The volatility on the local government spending, business investment and inflation in the PRC which may affect our revenue and profitability.

If the PRC economy does not grow at the expected rate or the PRC local government's spending for road maintenance work declines, this could lead to less expected business and maintenance activity. In order to diversify the risk, the Group will widen its customer base.

(ii) Financial credit risk

The Group is subject to the risk that trade receivables may not collected in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as slow settlement from local government funding. There is credit risk exposure that allowance for bad and doubtful debts may increase due to above reasons. In order to minimise the risk, the Group continues to enhance and strengthen the credit control and collection policies.

(iii) Environmental and regulations compliance risks

The PRC governments has introduced and imposed stricter measures on the industrial sector in relation to environmental protection, such as low-carbon requirements. The Group has environmental compliance policy and procedures in place to ensure the discharge of pollutants and wastes and other activities are in compliance with the relevant laws and regulations. Due to increase concern over the deteriorating environment in the PRC, in order to comply with the increasingly stringent laws and regulations, the Group may incur additional costs to update the environment protection devices and take more measures and assign more personnel to make sure the compliance with such laws and regulations.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

DIRECTORS — BIOGRAPHIES

Mr. Sze Wai Pan ("Mr. Sze"), aged 51, 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 120 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. Mr. Sze is the brother of Ms. Sze Wan Nga.

Ms. Sze Wan Nga ("Ms. Sze"), aged 43, was appointed an 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 also a director of several major PRC operating subsidiaries of our Group. Ms. Sze obtained the 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 ("Mr Zhang"), aged 63, was appointed an 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 ("Mr. Chan"), aged 49, 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

Dr. Chan Yan Chong ("Dr. Chan"), aged 65, was appointed as a non-executive director of the Company in October 2016. He graduated from Nanyang University in Singapore with a degree in Mathematics. Then he obtained a Master degree in Operational Research at Lancaster University and Doctorate in Management Sciences at Manchester University. Dr. Chan worked as programme director for the master of business administration programme and associate professor in the Department of Management Sciences at City University of Hong Kong. He is currently a director of Au Chan Investment Limited. In 2001, Dr. Chan won the best commercial application research award from City University of Hong Kong. In 2007, Dr. Chan was awarded the Medal of Honor (M.H.) from the Government of Hong Kong S.A.R., and Nanyang Alumnus Award from Nanyang Technological University, and obtained the International Financial Awards of Excellence for his Distinguished Financial Research by Chinese Institute of Certified Financial Planners. He has published 50 professional books and more than 5,000 articles, and is also a feature column writer for many newspapers and magazines. Dr. Chan is currently an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited* (上海交大慧谷信息產業股份有限公司) (Stock Code: 8205), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Wang Lei, aged 40, 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 (中國國際金融股份有限公司), since 2009 and is now an executive director. He obtained 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 ("Ms. Yeung"), aged 43, 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 ("Mr. Tang"), aged 69, 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau Ching Kwong ("Mr. Lau"), aged 74, 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.

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Jiang Yong He ("Mr. Jiang"), aged 57, 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 ("Mr. Huang"), aged 54, 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 ("Mr. Lim"), aged 40, 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 is pleased to present this Corporate Governance Report in the Annual Report for the year ended 31 December 2016.

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.

Code 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 for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company (the "Employee Written Guidelines").

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

CORPORATE GOVERNANCE REPORT

3. BOARD OF DIRECTORS

The Board currently comprises a total of 9 members, with 4 executive directors, 2 non-executive directors and 3 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:

Dr. Chan Yan Chong
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 and save as disclosed therein, there is no material relationship among members of the Board.

Chairman and Chief Executive Officer

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As explained under the above paragraph headed "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 2016, 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.

The non-executive directors of the Company are appointed for a specific term of two years, and are subject to retirement by rotation 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 of the Company 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 sets out 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:		
Dr. Chan Yan Chong	✓	✓
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	*(Independent non-executive director)*	*(Chairman)*
Ms. Yeung Sum	*(Independent non-executive director)*	
Ms. Sze Wan Nga	*(Executive director)*	

The Remuneration Committee met twice 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 three (2015: two) senior management fell within the band of less than HK$1,000,000 and none of the (2015: one) senior management fell within the band of HK$1,000,001 to HK$1,500,000 for the year under review.

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. During the year under review, the Nomination Committee has selected and recommended a candidate for the directorship.

In assessing the Board composition, the nomination committee would take various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and education background, professional qualifications, skills, knowledge and industry and regional experience. The nomination committee would discuss and agree on measurable objectives for achieving diversity on the Board, consults the chairman of the Board about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

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

Members of the committee are:

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

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

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

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held during the year under review. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2016 and for the year ended 31 December 2016, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, internal control and risk management 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 2017.

CORPORATE GOVERNANCE REPORT

5. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

	Number of meetings held during the year Attended/(Note)			
	Board	Remuneration committee	Nomination committee	Audit committee
Executive Directors:				
Mr. Sze Wai Pan	4/4		2/2	
Ms. Sze Wan Nga	4/4	2/2		
Mr. Zhang Yifu	4/4			
Mr. Chan Kai King	4/4			
Non-executive Directors:				
Dr. Chan Yan Chong (appointed on 31 October 2016)	1/1			
Mr. Wang Lei	3/4			
Mr. Yeung Chin Chiu	3/3			
Independent Non-executive Directors:				
Ms. Yeung Sum	4/4	2/2		2/2
Mr. Tang Koon Yiu Thomas	4/4	2/2	2/2	2/2
Mr. Lau Ching Kwong	4/4		2/2	2/2

Note: Attendances of the directors appointed/resigned during the year were made by reference to the number of such meetings held during their respective tenures.

6. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

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

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

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

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

CORPORATE GOVERNANCE REPORT

7. FINANCIAL REPORTING

The directors 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 external auditors of the Company, Deloitte Touche Tohmatsu, have also stated their reporting responsibility in the section headed "Independent Auditor's Report" of this report.

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

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

8. INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective internal control system and for reviewing its effectiveness, particularly in respect of controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets. During the year under review, through discussions with our management and the internal audit team, the Board has conducted assessments and reviews of the effectiveness of the Group's internal control system, including, among others, financial control, operational and compliance controls and risk management functions.

The internal audit team formulates the internal audit plan of the Group based on the strategic objectives analysis, business flow analysis, risk assessment and performance evaluation under the authority of the Board and the guidance of the Audit Committee. It reports to the Audit Committee and the Board for its findings and recommendations on internal control. 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.

During the year under review, the internal audit team continuously optimised job responsibilities and functions of different departments according to the audit plan. The Board, through the Audit Committee and internal audit team, 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. Based on information furnished to it and on its own observations, the Board is satisfied with present internal control systems of the Group and considers them effective and adequate. During the year under review and up to the date of this annual report, nothing has been found which requires substantial improvement.

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$1,580,000 for the provision of audit services, and other certified public accountant firms charged HK$484,000 for the provision of audit services to the Company's subsidiaries located in Hong Kong and China.

CORPORATE GOVERNANCE REPORT

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.

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 2016.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 38 to the financial statements. During the year under review, there were no significant changes in the nature of the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties that the Group might face, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 6 and the Management Discussion and Analysis on pages 7 to 19. These discussions form part of this Report of the Directors.

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 2016 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 2016 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 46 to 121.

Directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2016.

The directors do not recommend the payment of any dividend for the year ended 31 December 2016. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

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 2016 are set out in note 28 to the financial statements.

REPORT OF THE DIRECTORS

7. SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 29 to the financial statements.

8. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company 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 under review.

10. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

11. DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$1,956.2 million (2015: HK$2,000.5 million), of which none (2015: HK$19.4 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 approximately 43.1% of the total sales for the year and sales to the largest customer included therein amounted to approximately 19.9%. Purchases from the Group's five largest suppliers accounted for approximately 22.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8.7%.

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.

13. CHARITABLE DONATION

Charitable donation made by the Group during the year under review amounted to HK$855,000.

REPORT OF THE DIRECTORS

14. 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 (resigned on 31 October 2016)
Dr. Chan Yan Chong (appointed on 31 October 2016)
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, Ms. Sze Wan Nga, Mr. Chan Kai King and Mr. Lau Ching Kwong are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Dr. Chan Yan Chong was appointed as a non-executive director on 31 October 2016. Pursuant to Article 83(3) of the articles of association of the Company, Dr. Chan Yan Chong shall hold office only until the forthcoming annual general meeting, and being eligible, offer himself 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.

15. 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 two to three years commencing on 7 June 2013, 31 October 2016 and 23 December 2016, respectively, 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).

16. DIRECTORS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, its holding company or any of their respective subsidiaries was a party and in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of, or at any time during the year under review.

REPORT OF THE DIRECTORS

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

As at 31 December 2016, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company

	Personal Interests					
Name of director	Number of shares held	Number of awarded share held	Number of underlying shares held under equity derivatives	Corporate Interests	Total	Approximate percentage of existing issued share capital of the Company
Mr. Sze Wai Pan ("Mr. Sze")	–	–	–	527,006,260[1]	527,006,260	48.84%
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%
Dr. Chan Yan Chong	50,000	–	–	–	50,000	0.00%

Notes:

1. Mr. Sze is the beneficial owner of all the issued share capital of Freetech (Cayman) Ltd. ("Freetech Cayman"), Freetech (BVI) Limited ("Sze BVI") and Freetech Technology Limited ("Freetech Technology") and therefore is deemed to be interested in a total of 527,006,260 shares of the Company held by Freetech Cayman, Sze BVI and Freetech Technology. Mr. Sze is the director of Freetech Cayman, Sze BVI and Freetech Technology.

2. Ms. Sze is the beneficial owner of all the issued share capital of Intelligent Executive Limited ("Intelligent Executive") and therefore is deemed to be interested in 29,640,000 shares of the Company held by Intelligent Executive. Ms. Sze is the director of Intelligent Executive, Freetech Cayman, Sze BVI and Freetech Technology.

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 2016, none of the directors nor the chief executive of the Company had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations.

18. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, 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	527,006,260	48.84%
Sze BVI[(1)]	Interest in controlled corporation	527,006,260	48.84%
Freetech Cayman[(1)]	Beneficial owner	527,006,260	48.84%
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:

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

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

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2016, 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.

19. SHARE OPTION SCHEME

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

Movement of the share options under the Share Option Scheme for the year ended 31 December 2016 are as follows:

Name of participants	Options held at 1 January 2016	Granted during the year	Forfeited during the year	Options held at 31 December 2016	Date of Grant	Exercise period	Exercise price per share	Weighted average share price immediately preceding the exercise date
Directors								
Sze Wan Nga	100,000	–	–	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Sze Wan Nga	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Zhang Yifu	100,000	–	–	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Zhang Yifu	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Chan Kai King	100,000	–	–	100,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Chan Kai King	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Yeung Sum	50,000	–	–	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Yeung Sum	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Tang Koon Yiu Thomas	50,000	–	–	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Tang Koon Yiu Thomas	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Lau Ching Kwong	50,000	–	–	50,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
Lau Ching Kwong	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Continuous contract employees								
In aggregate	2,035,000	–	–	2,035,000	16/10/2014	16/10/2015–15/10/2017	HK$2.50	N/A
In aggregate	2,020,000	–	(230,000)	1,790,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
	4,955,000	–	(230,000)	4,725,000				

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

REPORT OF THE DIRECTORS

20. SHARE AWARD SCHEME

On 7 May 2014, the Company adopted the share award scheme (the "Share Award Scheme") under which shares of the Company (the "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 certain funds to the trustee for the purchase of the shares of the Company 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 determine.

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. During the year under review, no Awarded Shares were granted to eligible persons under the Share Award Scheme.

Further details of the Share Award Scheme are disclosed in note 31 to the financial statements.

21. 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 (the "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 2016 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 2016 and up to the date of the Annual Report.

REPORT OF THE DIRECTORS

22. CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 31 August 2015 and 27 February 2017 in relation to, among others, the continuing connected transactions between the Group and Tianjin Expressway Group Company Limited* (天津高速公路集團有限公司) ("Tianjin Expressway Group") and its wholly-owned subsidiaries and associates. During the year under review, Tianjin Expressway Maintenance Company Limited* (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance") is owned as to 55% and 45% by Freetech Smart Road Recycling Engineering Investment Limited (a non-wholly owned subsidiary of the Company) and Tianjin Expressway Group, respectively. As Tianjin Expressway Group is a substantial shareholder of Tianjin Expressway Maintenance, Tianjin Expressway Group and its subsidiaries and associates are connected persons of the Company at the subsidiary level. On 27 February 2017,Tianjin Expressway Maintenance and Tianjin Expressway Group and its wholly-owned subsidiaries and associates finalised and entered into certain services agreements in relation to the renewal of the ongoing transactions of the Group conducted on a regular and continuing basis. Details of the continuing connected transactions are as set out below:

Connected person	Services period	Actual transaction amount during the year (RMB'000)	(HK$'000)	Basis for determining the consideration	Terms of the relevant service agreement
Tianjin Expressway Group	1 January 2016– 31 March 2017	84,479	98,528	Note (1)	Note (2)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	8 September 2016– 25 October 2016	849	990	Note (1)	Note (3)
Tianjin Xinzan Expressway Co. Ltd.* (天津新展高速公路有限公司)	15 March 2016– 14 March 2017	1,720	2,006	Note (1)	Note (4)

* *for identification purpose only*

Notes:

(1) The consideration were determined with reference to the pricing guidelines issued by the local government of Tianjin, the consideration of the historical transactions, the market price of raw materials costs and similar services rendered, and the duration and location of the projects. The details of the pricing mechanism are set out below:

The pricing guidelines issued by the local government of Tianjin set out the price references for labour, certain raw materials and machine used in maintenance services projects similar to the projects under the continuing connected transactions. Although the pricing guidelines are not mandatory and there is no requirement for Tianjin Expressway Maintenance to follow the pricing guidelines, Tianjin Expressway Maintenance uses the pricing guidelines for reference only. Furthermore, Tianjin Expressway Maintenance would adjust the labour costs and estimate the raw material costs set out in the pricing guidelines by comparing them with the prevailing market prices of labour costs and raw materials and subject to any recent or anticipated changes in the market that are of the Group's knowledge.

Under the continuing connected transactions, based on the Group's knowledge and extensive experience in the road maintenance and construction sector, the Group was of the view that there were no changes or anticipated changes that could have significantly affected the relevant consideration. Furthermore, the purchasing team of Tianjin Expressway Maintenance conducted market research on the prevailing market prices of raw materials and obtained 15 quotes from other raw materials suppliers in Tianjin in determining the consideration.

The consideration was further determined on a cost-plus basis with certain percentage of the profit margin depending on the types of the services provided. Such percentage of the profit margin was determined based on the historical transaction experience of Tianjin Expressway Maintenance which included the recent 20 transactions of daily damages maintenance works performed by the Group.

REPORT OF THE DIRECTORS

(2) Provision of daily and damages maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 20% prepayment upon starting services, thereafter quarterly settlement based on actual volume.

(3) Provision of daily and damages maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid upon completion of the services

(4) Provision of daily and damages maintenance services by Tianjin Expressway Maintenance and the consideration shall be settled quarterly.

The independent non-executive directors of the Company have, for the purpose of Rule 14A.55 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.56 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 and that they confirmed all the matters as set out in Rule 14.55 of the Listing Rules in respect of the above continuing connected transactions. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

23. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 37 to the financial statements. Save for those set out in the above section headed "Connected Transactions" in the Report of the Directors, none of the related party transactions constitute connected transactions under Chapter 14A of the Listing Rules.

24. 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.

25. 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

26. AUDITORS

The consolidated financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), who will retire, and being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Deloitte as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

Deloitte have been appointed as the auditors of the Company with effect from 22 January 2015 to fill the casual vacancy following the resignation of Messrs. Ernst & Young which took effect from 22 January 2015. Save for the above, there had been no other change in auditors of the Company in any of the preceding three years of this annual report.

27. PERMITTED INDEMNITY PROVISIONS

The Articles of Association of the Company provides that every director of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts. Directors liability insurance is in place to protect the directors of the Company or its subsidiaries against potential costs and liabilities arising from claims brought against the directors.

On behalf of the Board

Mr. Sze Wai Pan
Chairman and Chief Executive Officer
Hong Kong, 30 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤‧關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

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

TO THE MEMBERS OF FREETECH ROAD RECYCLING TECHNOLOGY (HOLDINGS) LIMITED
英達公路再生科技(集團)有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

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 46 to 121, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment on trade receivables	
We identified the impairment on trade receivables as a key audit matter because of its material balance at 31 December 2016 and the identification of bad and doubtful debts requires significant estimation by the management of the Company. As at 31 December 2016, the Group has trade receivables of approximately HK$727 million, and the balance of allowance for doubtful debts of trade receivable is approximately HK$80 million. Referring to note 4 to the consolidated financial statements, management estimates impairment loss on trade receivables based on management's assessment of the ultimate realisation of these receivables by considering the ageing of the trade receivables balances, the repayment history, the financial conditions and current creditworthiness of each customer.	Our procedures in relation to management's assessment of the carrying value of the trade receivables included: • Understanding how the impairment loss of trade receivables is estimated by the management and the approval procedures for recognising the impairment loss on trade receivables; • Testing the accuracy of the aged analysis of trade receivables and tracing the subsequent settlements to source documents, on a sample basis; • For the trade receivables without subsequent settlement, assessing the reasonableness of management's assessment on the impairment loss of trade receivables with reference to the ageing of the trade receivable balances, the repayment history, the financial conditions and current creditworthiness of each customer; and • Evaluating the historical accuracy of the management estimates on the impairment loss on trade receivables made in prior years by comparing the historical impairment loss recognised to the actual settlement and actual loss incurred, and tracing the actual settlement to the source documents, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lo Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
Revenue	7	**495,598**	616,641
Cost of sales		**(316,328)**	(430,793)
Gross profit		**179,270**	185,848
Other income	8	**10,555**	14,156
Other gains and losses	9	**(14,854)**	(3,134)
Selling and distribution costs		**(17,918)**	(22,456)
Administrative expenses		**(87,184)**	(84,154)
Research and development costs		**(8,807)**	(13,864)
Other expenses		**(1,190)**	(73)
Share of (losses) profits of joint ventures		**(1,878)**	2,550
Finance costs	10	**(2,884)**	(1,252)
Profit before taxation	11	**55,110**	77,621
Taxation	13	**(10,686)**	(11,913)
Profit for the year		**44,424**	65,708
Other comprehensive expense for the year			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation		**(77,196)**	(68,910)
Other comprehensive expense for the year		**(77,196)**	(68,910)
Total comprehensive expense for the year		**(32,772)**	(3,202)
Profit for the year attributable to:			
Owners of the Company		**43,138**	64,502
Non-controlling interests		**1,286**	1,206
		44,424	65,708
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(27,003)**	(2,643)
Non-controlling interests		**(5,769)**	(559)
		(32,772)	(3,202)
Earnings per share	15		
— Basic		**HK4.06 cents**	HK6.07 cents
— Diluted		**HK4.00 cents**	HK5.98 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**309,856**	296,011
Goodwill	17	**14,700**	10,507
Prepaid lease payments	18	**10,750**	5,936
Other intangible assets	19	**454**	311
Prepayments and deposits for acquisition of land use rights		**114,299**	47,157
Interests in joint ventures	20	**54,793**	72,457
Deferred tax assets	21	**3,613**	5,788
Available-for-sale investments	22	**8,267**	–
Trade receivables-non-current	24	**59,664**	–
		576,396	438,167
Current assets			
Inventories	23	**30,092**	57,954
Bills and trade receivables	24	**587,985**	651,217
Prepayments, deposits and other receivables	25	**113,919**	77,215
Prepaid lease payments	18	**298**	193
Time deposits	26	**3,016**	85,027
Pledged bank deposits	26	**46,845**	140,098
Structured bank deposits	26	**1,229**	2,030
Bank balances and cash	26	**275,119**	251,880
		1,058,503	1,265,614
Current liabilities			
Bills, trade and other payables	27	**293,513**	370,009
Taxation payable		**2,401**	7,710
Bank borrowings	28	**139,601**	72,325
		435,515	450,044
Net current assets		**622,988**	815,570
Total assets less current liabilities		**1,199,384**	1,253,737
Non-current liabilities			
Deferred tax liabilities	21	**9,414**	12,860
		1,189,970	1,240,877

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	29	**107,900**	107,900
Reserves		**988,805**	1,035,035
Attributable to the owners of the Company		**1,096,705**	1,142,935
Non-controlling interest		**93,265**	97,942
Total equity		**1,189,970**	1,240,877

The consolidated financial statements on pages 46 to 121 were approved and authorised for issue by the board of directors on 30 March 2017 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 2016

	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 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 32)	–	–	–	–	–	–	–	–	–	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 31)	–	–	(10,032)	–	–	–	–	–	(10,032)	–	(10,032)
Equity-settled share award scheme (note 31)	–	–	–	–	–	1,633	–	–	1,633	–	1,633
Equity settled share option arrangements (note 30)	–	–	–	–	–	515	–	–	515	–	515
Transfer of awarded shares upon vesting	–	–	3,172	–	–	(2,063)	–	(1,109)	–	–	–
At 31 December 2015 and 1 January 2016	107,900	732,463	(26,584)	25,328	80,996	640	(36,613)	258,805	1,142,935	97,942	1,240,877
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**43,138**	**43,138**	**1,286**	**44,424**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(70,141)**	**–**	**(70,141)**	**(7,055)**	**(77,196)**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(70,141)**	**43,138**	**(27,003)**	**(5,769)**	**(32,772)**
Acquisition of subsidiaries (note 32)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,092**	**1,092**
Dividend recognised as distribution (note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,422)**	**(19,422)**	**–**	**(19,422)**
Transfer from retained profits	**–**	**–**	**–**	**–**	**4,554**	**–**	**–**	**(4,554)**	**–**	**–**	**–**
Equity settled share option arrangements (note 30)	**–**	**–**	**–**	**–**	**–**	**195**	**–**	**–**	**195**	**–**	**195**
At 31 December 2016	**107,900**	**732,463**	**(26,584)**	**25,328**	**85,550**	**835**	**(106,754)**	**277,967**	**1,096,705**	**93,265**	**1,189,970**

Notes:

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

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

(c) The amount represents payments by the Group to the trustee of the Share Award Scheme (as defined in note 31), 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 31.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Profit before taxation		55,110	77,621
Adjustments for:			
Interest income		(8,048)	(10,136)
Finance costs		2,884	1,252
Share of losses (profits) of joint ventures		1,878	(2,550)
Depreciation		43,964	34,951
Amortisation of prepaid lease payments		298	193
Amortisation of other intangible assets		132	102
Loss on disposal of property, plant and equipment		1,051	810
Allowance for bad and doubtful debts, net		23,772	11,996
Impairment of goodwill		–	2,863
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value		(12,766)	(16,173)
Share-based payment expense		195	2,148
Unrealised exchange differences		(4,750)	(5,970)
Operating cash flows before movements in working capital		103,720	97,107
Decrease (increase) in inventories		25,183	(158)
Increase in bills and trade receivables		(58,383)	(48,947)
Increase in prepayments, deposits and other receivables		(39,816)	(38,700)
(Decrease) increase in bills, trade and other payables		(73,308)	73,511
Cash (used in) generated from operations		(42,604)	82,813
Interest paid		(2,884)	(1,252)
Income tax paid		(17,067)	(12,549)
Net cash (used in) from operating activities		(62,555)	69,012
Investing activities			
Interest received		8,048	10,136
Proceeds from disposal of property, plant and equipment		251	17
Purchase of property, plant and equipment		(41,917)	(19,615)
Purchase of available-for-sale investments		(8,267)	–
Placement of pledged bank deposits		(14,365)	(140,718)
Withdrawal of pledged bank deposits		107,618	6,751
Placement of structured bank deposits		(1,229)	(2,030)
Withdrawal of structured bank deposits		2,030	–
Investments in joint ventures		–	(46,700)
Repayment from a joint venture		–	10,148
Net cash (outflow) inflow on acquisitions of subsidiaries	32	(25,775)	36,745
Purchase of other intangible assets		(303)	–
Placement of time deposits		–	(8,582)
Withdrawal of time deposits		82,011	151,829
Prepayment for acquisition of land use rights		(93,074)	–
Refund of prepayment for acquisition of land use rights		18,661	–
Net cash from (used in) investing activities		33,689	(2,019)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Financing activities		
Bank borrowings raised	**157,821**	109,639
Repayments of bank borrowings	**(87,200)**	(37,936)
Dividends paid	**(19,422)**	(16,185)
Purchase of shares held under the share award scheme	**–**	(10,032)
Increase in bills, trade and other payables	**–**	27,679
Net cash from financing activities	**51,199**	73,165
Net increase in cash and cash equivalents	**22,333**	140,158
Cash and cash equivalents at the beginning of the year	**251,880**	110,783
Effects of exchange rate changes on the balance of cash held in foreign currencies	**906**	939
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**275,119**	251,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 38.

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")

New and revised HKFRSs adopted during the year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to Hong Kong Accounting Standard ("HKAS") 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 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 2016

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

New HKFRSs and amendments to HKFRSs in issue 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 and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described below:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

New HKFRSs and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

New HKFRSs and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing /operating cash flows.

Under HKAS 17, the Group is required to recognise an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$7,690,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 a joint venture.

Business combinations

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

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

Goodwill

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

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

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 a joint venture is described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures

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 joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in 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 joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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 joint venture.

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

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in 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 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 a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Internally-generated intangible assets — research and development expenditure *(Continued)*

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

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.

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 available-for-sale ("AFS") financial assets and 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.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (FVTPL).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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, structured bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, 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.

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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 2016

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 2016, the carrying amount of property, plant and equipment amounted to approximately HK$309,856,000 (2015: HK$296,011,000) with nil balance of accumulated impairment loss at both 31 December 2016 and 31 December 2015, details of which are set out in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016, the carrying amount of goodwill is HK$14,700,000 (net of accumulated impairment loss of HK$2,863,000) (2015: HK$10,507,000 (net of accumulated impairment loss of HK$2,863,000)), 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 2016, the carrying amount of inventories is HK$30,092,000 (net of allowance for inventories of nil) (2015: carrying amount of HK$57,954,000, 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 estimate made by management. A considerable amount of estimation 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 2016, the carrying amount of trade receivables is HK$647,426,000 (net of allowance for bad and doubtful debts of HK$79,678,000) (2015: carrying amount of HK$651,217,000, net of allowance for bad and doubtful debts of HK$63,416,000).

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 2016

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Available-for-sale investments	**8,267**	–
Loans and receivables (including cash and cash equivalents)	**1,087,022**	1,161,276
Financial liabilities		
Amortised cost	**383,442**	329,061

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, 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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
United States dollars ("US$")	**29,871**	107	**27,125**	27,125
Hong Kong dollars ("HK$")	**15,938**	14,009	**12,456**	47,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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. 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)	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
(Decrease) increase in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(137)**	1,351	**(163)**	1,661

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

(ii) This is mainly attributable to the exposure outstanding on HK$ bank balances and cash and 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 26 and 28 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, structured bank deposits and bank borrowings (see notes 26 and 28 for details of these bank balances, 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 2016

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 (2015: 10 basis points) increase or decrease in interest rates on variable bank balances, and a 100 basis points (2015: 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 (2015: 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	
	2016	2015
	HK$'000	HK$'000
Increase in post-tax profit for the year	**76**	386

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 (2015: 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	
	2016	2015
	HK$'000	HK$'000
Decrease in post-tax profit for the year	**252**	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 2016

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 2016 and 31 December 2015. As at 31 December 2016, balances with the four largest banks accounted for 75% (2015: 77%) of total pledged bank deposits, structured 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 35% (2015: 39%) 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 31.12.2016 HK$'000
2016						
Non-derivative financial liabilities						
Non-interest bearing	–	243,841	–	–	243,841	243,841
Floating rate instruments	2.55%	30,174	–	–	30,174	30,125
Fixed rate instruments	4.35%	112,905	–	–	112,905	109,476
		386,920	–	–	386,920	383,442

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 31.12.2015 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

At 31 December 2016, included in interest-bearing bank borrowings was a term loan in the amount of HK$139,601,000 (2015: HK$72,325,000). The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time. In the opinion of the directors of the Company, such term loan would not be repayable on-demand and would be repaid by instalments in accordance with the scheduled repayment dates. For the purpose of the above maturity profile, the total amount was classified as "on demand".

Fair value

The fair value of financial assets and financial liabilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Segment revenue and results

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
For the year ended 31 December 2016			
Segment revenue:			
Sales to external customers	324,057	171,541	495,598
Intersegment sales	6,251	38,276	44,527
Other revenue	2,444	63	2,507
	332,752	209,880	542,632
Reconciliation			
Elimination of intersegment sales	(6,251)	(38,276)	(44,527)
Revenue	326,501	171,604	498,105
Allocated corporate expenses	(320,134)	(119,768)	(439,902)
Segment results	6,367	51,836	58,203
Reconciliation:			
Interest income			8,048
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value			12,766
Exchange losses			(2,797)
Finance costs			(2,884)
Unallocated corporate expenses			(16,348)
Share of losses of joint ventures			(1,878)
Profit before tax			55,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 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)
Revenue	539,729	80,932	620,661
Allocated corporate expenses	(483,031)	(64,514)	(547,545)
Segment results	56,698	16,418	73,116
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
Profit before tax			77,621

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 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 2016

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 2016			
Segment assets	**1,003,503**	**302,173**	**1,305,676**
Elimination of intersegment receivables			**(228,362)**
Investments in joint ventures			**54,793**
Other unallocated assets			**502,792**
Total assets			**1,634,899**
Segment liabilities	**371,980**	**149,665**	**521,645**
Elimination of intersegment payables			**(228,362)**
Other unallocated liabilities			**151,646**
Total liabilities			**444,929**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016			
Impairment losses in respect of trade and other receivables	**15,055**	**8,717**	**23,772**
Depreciation and amortisation	**41,422**	**2,972**	**44,394**
Capital expenditure (Note)	**46,905**	**129**	**47,034**
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

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 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 2016, revenue from a related company, accounted for 10% or more of the Group's revenue and its revenue amounted to HK$98,528,000 (2015: HK$168,354,000). The sales to the above related company 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 2016

8. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Government grants (Note)	**347**	2,839
Interest income	**8,048**	10,136
Others	**2,160**	1,181
	10,555	14,156

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

	2016 HK$'000	2015 HK$'000
Loss on disposal of property, plant and equipment	**(1,051)**	(810)
Impairment loss recognised in respect of goodwill	**–**	(2,863)
Impairment of trade receivables	**(22,833)**	(11,869)
Impairment of other receivables	**(939)**	(127)
Fair value gain from remeasurement of equity interest previously held in acquired subsidiaries to fair value	**12,766**	16,173
Net foreign exchange losses	**(2,797)**	(3,638)
	(14,854)	(3,134)

10. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on:		
— Bank borrowings wholly repayable within five years	**2,884**	1,252
Less: amounts capitalised	**–**	–
	2,884	1,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. PROFIT BEFORE TAXATION

	2016 HK$'000	2015 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 12)	**5,356**	6,349
Other staff retirement benefit scheme contributions	**8,696**	7,114
Other staff costs	**54,561**	60,165
Share-based payment expense for other staff	**159**	1,689
Total staff costs	**68,772**	75,317
Amortisation of prepaid lease payments	**298**	193
Amortisation of other intangible assets	**132**	102
Auditor's remuneration	**1,580**	1,480
Cost of inventories sold	**61,848**	37,738
Cost of services provided	**254,480**	393,055
Depreciation	**43,964**	34,951

Share-based payment expense of approximately HK$195,000 (2015: HK$2,148,000) were recognised in profit or loss during the year ended 31 December 2016 in respect of share options and awards of the Company. Details of transactions are set out in note 30 and note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

The emoluments paid or payable to each of the ten (2015: nine) directors for the year ended 31 December 2016 were as follows:

	2016						2015					
	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	–	1,664	236	–	18	1,918	–	1,584	564	–	18	2,166
Sze Wan Nga	–	952	64	8	18	1,042	–	857	386	21	18	1,282
Zhang Yifu	–	773	8	8	18	807	–	746	142	204	18	1,110
Chan Kai King	–	868	50	8	18	944	–	809	130	204	18	1,161
Non-executive directors												
Wang Lei	–	–	–	–	–	–	–	–	–	–	–	–
Yeung Chin Chiu (note1)	–	–	–	–	–	–	–	–	–	–	–	–
Chan Yan Chong (note2)	33	–	–	–	–	33	–	–	–	–	–	–
Independent non-executive directors												
Yeung Sum	200	–	–	4	–	204	200	–	–	10	–	210
Tang Koon Yiu, Thomas	200	–	–	4	–	204	200	–	–	10	–	210
Lau Ching Kwong	200	–	–	4	–	204	200	–	–	10	–	210
	633	4,257	358	36	72	5,356	600	3,996	1,222	459	72	6,349

(1) Mr. Yeung Chin Chiu resigned as a non-executive director of the Company on 31 October 2016.

(2) Dr. Chan Yan Chong was appointed as a non-executive director of the Company on 31 October 2016.

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 (2015: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one (2015: one) highest paid individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries and allowances	812	786
Performance related bonuses	23	127
Retirement benefits scheme contributions	18	18
Share-based payment expense	8	94
	861	1,025

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For the year ended 31 December 2016

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

Their emoluments are within the following band:

	Number of employees	
	2016	2015
HK$Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1

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

13. TAXATION

The charge comprises:

	2016 **HK$'000**	2015 HK$'000
PRC Enterprise Income Tax ("EIT"):		
— Current year	**7,472**	8,530
— Under (over) provision in prior years	**740**	(1,239)
	8,212	7,291
Deferred tax charge (note 21)	**2,474**	4,622
	10,686	11,913

No provision for Hong Kong profits tax has been made for the years ended 31 December 2016 and 2015 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 ("Nanjing 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$814,000 (2015: HK$1,074,000) has been provided for in the year ended 31 December 2016 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 2016

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:

	2016 HK$'000	2016 %	2015 HK$'000	2015 %
Profit before taxation	**55,110**		77,621	
Tax at the applicable income tax rate of 25% (2015: 25%) (note)	**13,777**	**25.0**	19,405	25.0
Tax effect of expenses not deductible for tax purposes	**5,323**	**9.7**	3,153	4.1
Tax effect of tax losses not recognised	**8,277**	**15.0**	7,984	10.3
Tax effect of income not taxable for tax purpose	**(12,517)**	**(22.7)**	(11,422)	(14.8)
Tax effect of share of losses (profits) of joint ventures	**469**	**0.9**	(637)	(0.8)
Tax effect of deductible temporary differences not recognised	**5,506**	**10.0**	4,361	5.5
Utilisation of tax losses and deductible temporary differences previously not recognised	**(2,847)**	**(5.2)**	(312)	(0.4)
Income tax at concessionary rates	**(7,432)**	**(13.5)**	(8,721)	(11.2)
Under (over) provision in prior years	**740**	**1.3**	(1,239)	(1.6)
Tax effect of additional deduction related to research and development costs and certain staff costs	**(1,424)**	**(2.6)**	(1,733)	(2.2)
Withholding tax on undistributed profits of PRC subsidiaries	**814**	**1.5**	1,074	1.4
Taxation charge and effective tax rate for the year	**10,686**	**19.4**	11,913	15.3

Note: The domestic income tax rate of 25 % (2015: 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 2016

14. DIVIDENDS

	2016 HK$'000	2015 HK$'000
Dividends recognised as distribution: 2015 final dividend of HK1.8 cents (2014: final dividend of HK1.5 cents) per ordinary share	**19,422**	16,185

No final dividend is proposed by the directors for the year ended 31 December 2016. Final dividend of HK1.8 cents per share was proposed by the directors for the year ended 31 December 2015.

15. EARNINGS PER SHARE

	2016 HK$'000	2015 HK$'000
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share — attributable to the owners of the Company	**43,138**	64,502
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	**1,061,630,000**	1,062,795,068
Effect of dilutive potential ordinary shares: Unvested share award	**17,370,000**	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 2016 and 31 December 2015 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.

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For the year ended 31 December 2016

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 2015	28,890	229,309	44,518	8,022	875	44,445	356,059
Acquisition of subsidiaries (note 32)	–	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**
Acquisition of subsidiaries (note 32)	**–**	**36,464**	**–**	**–**	**–**	**–**	**36,464**
Transfers	**56,370**	**–**	**–**	**–**	**–**	**(56,370)**	**–**
Additions	**4,949**	**32,472**	**362**	**367**	**–**	**3,767**	**41,917**
Disposal/write-off	**–**	**(4,521)**	**(493)**	**(25)**	**–**	**–**	**(5,039)**
Effect of foreign currency exchange differences	**(4,344)**	**(25,883)**	**(3,189)**	**(646)**	**(414)**	**(1,258)**	**(35,734)**
At 31 December 2016	**84,192**	**320,603**	**41,046**	**8,768**	**1,702**	**–**	**456,311**
DEPRECIATION							
At 1 January 2015	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**
Provided for the year	**2,689**	**31,884**	**7,098**	**1,712**	**581**	**–**	**43,964**
Disposal/write-off	**–**	**(3,273)**	**(448)**	**(16)**	**–**	**–**	**(3,737)**
Effect of foreign currency exchange differences	**(821)**	**(12,720)**	**(2,155)**	**(448)**	**(320)**	**–**	**(16,464)**
At 31 December 2016	**12,831**	**99,068**	**27,892**	**6,141**	**523**	**–**	**146,455**
CARRYING VALUES							
At 31 December 2016	**71,361**	**221,535**	**13,154**	**2,627**	**1,179**	**–**	**309,856**
At 31 December 2015	16,254	198,894	20,969	4,179	1,854	53,861	296,011

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 2016

17. GOODWILL

	2016 HK$'000	2015 HK$'000
Cost		
At beginning of the year	**13,370**	4,907
Additional amounts recognised from business combinations (note 32)	**4,193**	8,463
At the end of the year	**17,563**	13,370
Impairment		
At beginning of the year	**2,863**	–
Impairment losses recognised in the year	**–**	2,863
At the end of the year	**2,863**	2,863
Carrying amount		
At the end of the year	**14,700**	10,507

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. 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. The equity interests held by the Group in Suqian Hengtong increased from 35% to 65% upon the completion of this acquisition. During the year ended 31 December 2015, this amount of goodwill of HK$2,863,000 was impaired.

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. The equity interests held by the Group in Xinjiang Jianda increased from 49% to 89% upon the completion of this acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. GOODWILL *(Continued)*

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 32.

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 32. The equity interests held by the Group in Futech Road Recycling increased from 50% to 75% upon the completion of this acquisition.

On 30 December 2016, the Group subscribed additional capital of approximately HK$14,165,000 in 廣東穗通道路再生工程有限公司 Guangdong Suitong Road Recycling Engineering Co., Ltd. ("Guangdong Suitong"), which was previously a 51% owned joint venture of the Group, resulting in a goodwill of HK$4,146,000 as disclosed in note 32. The equity interests held by the Group in Guangdong Suitong increased from 51% to 94.19% upon the completion of this subscription.

On 27 December 2016, the Group acquired a 65 % equity interest in 福州速達道路養護工程有限公司 Fuzhou Suda Road Maintenance Engineering Co., Ltd. ("Fuzhou Suda"), which was previously a 35% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$12,009,000, resulting in a goodwill of HK$47,000 as disclosed in note 32. The equity interests held by the Group in Fuzhou Suda increased from 35% to 100% upon the completion of this acquisition.

	2016 **HK$'000**	2015 HK$'000
Freetech Ordos	**731**	731
Hunan Freetech Tongqu	**115**	115
Suqian Hengtong	**–**	–
Xinjiang Jianda	**1,198**	1,198
Tianjin Expressway Maintenance	**6,150**	6,150
Futech Road Recycling	**2,313**	2,313
Guangdong Suitong	**4,146**	–
Fuzhou Suda	**47**	–
At the end of the year	**14,700**	10,507

For the purposes of impairment testing, the seven subsidiaries (2015: six subsidiaries) are considered as seven cash-generating units ("CGU") (2015: six CGUs) as they can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. GOODWILL *(Continued)*

During the year ended 31 December 2016, the Group recognised an impairment loss of HK$nil (2015: recognised an impairment loss of HK$2,863,000 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 % (2015: 13% to 15%). The CGU's cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% (2015: 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.

18. PREPAID LEASE PAYMENTS

	2016	2015
	HK$'000	HK$'000
Non-current	**10,750**	5,936
Current	**298**	193
	11,048	6,129

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For the year ended 31 December 2016

19. OTHER INTANGIBLE ASSETS

	Software HK$'000
COST	
At 1 January 2015	1,231
Effect of foreign currency exchange differences	(70)
At 31 December 2015	1,161
Additions	303
Effect of foreign currency exchange differences	(88)
At 31 December 2016	1,376
AMORTISATION	
At 1 January 2015	798
Charge for the year	102
Effect of foreign currency exchange differences	(50)
At 31 December 2015	850
Charge for the year	132
Effect of foreign currency exchange differences	(60)
At 31 December 2016	922
CARRYING VALUES	
At 31 December 2016	454
At 31 December 2015	311

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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For the year ended 31 December 2016

20. INTERESTS IN JOINT VENTURES

	2016 HK$'000	2015 HK$'000
Cost of unlisted investments in joint ventures	**90,385**	112,171
Share of post-acquisition profits and other comprehensive income, net of dividend received	**(14,913)**	(8,985)
Unrealised profit of sales to joint ventures	**(20,679)**	(30,729)
	54,793	72,457

At 31 December 2016 and 2015, 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 27.

As at 31 December 2016 and 2015, 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 2016	2015	Proportion of voting rights held by the Group 2016	2015	Principal activity
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
Guangdong Suitong (as defined in note 17)	PRC equity joint venture	PRC	**N/A**	51% (Note 1)	**N/A**	51%	Provision of road maintenance services
Fuzhou Suda (as defined in note 17)	PRC equity joint venture	PRC	**N/A**	35% (Note 2)	**N/A**	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%**	45%	**50%**	50% (note 3)	Investment holding
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited	PRC equity joint venture	PRC	**45%**	45%	**50%**	50% (note 3)	Provision of leasing services
貴州英達道路工程有限公司 Guizhou Freetech Road Engineering Co., Ltd. ("Guizhou Freetech")	PRC equity joint venture	PRC	**49%**	N/A	**49%**	N/A	Provision of road maintenance services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

1. During the year ended 31 December 2016, the Group subscribed additional capital in Guangdong Suitong, which was previously a 51% owned joint venture of the Group. Upon the completion of this subscription, the equity interests held by the Group in Guangdong Suitong increased from 51% to 94.19% and Guangdong Suitong became subsidiary of the Group thereafter. A fair value gain of HK$7,602,000 from remeasurement of the 51% equity interests previously held in Guangdong Suitong to fair value were recognised in profit or loss upon the consolidation of Guangdong Suitong. Details of the acquisition are set out in note 32.

2. During the year ended 31 December 2016, the Group acquired additional 65% equity interest in Fuzhou Suda, which was previously a 35% owned joint venture of the Group. The equity interests held by the Group in Fuzhou Suda increased from 35% to 100%, upon the completion of this acquisition and Fuzhou Suda became subsidiary of the Group thereafter. A fair value gain of HK$5,164,000 from remeasurement of the 35% equity interests previously held in Fuzhou Suda to fair value were recognised in profit or loss upon the consolidation of Fuzhou Suda. Details of the acquisition are set out in note 32.

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 venture is accounted for using the equity method in these consolidated financial statements.

Nanjing Lujie

	2016 HK$'000	2015 HK$'000
Current assets	**70,639**	99,950
Non-current assets	**33,945**	42,253
Current liabilities	**35,993**	70,369
The above amounts of assets and liabilities included the following:		
Cash and cash equivalent	**1,044**	16,168
Current financial liabilities (excluding trade and other payables and provisions)	**–**	5,971
Revenue	**44,405**	86,612
Profit for the year	**1,455**	3,968
Other comprehensive expense for the year	**(4,699)**	(4,339)
Total comprehensive expense for the year	**(3,244)**	(371)
Dividends received from Nanjing Lujie during the year	**–**	–

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For the year ended 31 December 2016

20. INTERESTS IN JOINT VENTURES *(Continued)*

Nanjing Lujie *(Continued)*

The above profit for the year included the following:

	2016 HK$'000	2015 HK$'000
Depreciation and amortisation	6,170	6,435
Interest income	24	38
Interest expense	450	373
Income tax expense	431	1,847

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:

	2016 HK$'000	2015 HK$'000
Net assets of Nanjing Lujie	68,591	71,834
Proportion of the Group's ownership interest in Nanjing Lujie	45%	45%
Unrealised profit of sales to the joint venture	(5,887)	(7,315)
Carrying amount of the Group's interest in Nanjing Lujie	25,238	25,270

Aggregate information of joint ventures that are not individually material

	2016 HK$'000	2015 HK$'000
The Group's share of loss and total comprehensive expense	(7,524)	(6,847)
Aggregate carrying amount of the Group's interest in the joint ventures	29,555	47,187

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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$'000	Unrealised profits from transactions with joint ventures HK$'000	Total HK$'000
At 1 January 2015	(13,888)	10,044	(3,844)
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 and 1 January 2016	(12,860)	5,788	(7,072)
Charge to profit or loss	(814)	(1,660)	(2,474)
Reversal to profit or loss on payment of withholding tax	3,546	–	3,546
Effect of foreign currency exchange differences	714	(515)	199
At 31 December 2016	(9,414)	3,613	(5,801)

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

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**3,613**	5,788
Deferred tax liabilities	**(9,414)**	(12,860)
	(5,801)	(7,072)

At 31 December 2016, the Group has not recognised deductible temporary difference on provision for trade and other receivables of approximately HK$80,802,000 (2015:HK$63,858,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2016, the Group has tax losses arising in Hong Kong of approximately HK$48,332,000 (2015: HK$56,873,000) 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$67,398,000 (2015: HK$45,262,000) that will expire at various dates up to and including 2021 (2015: 2020) 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 2016

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$312 million (2015: HK$287 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. AVAILABLE-FOR-SALE INVESTMENTS

	2016 **HK$'000**	2015 HK$'000
Unlisted equity investments in PRC, at cost	**8,267**	–

At 31 December 2016, the unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. As the Group has no control, joint control nor significant influence in these private entities, the investments were presented as available-for sale investments carried at cost in the consolidated statement of financial position at 31 December 2016. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**13,990**	17,953
Work-in-progress	**15,425**	25,156
Finished goods	**677**	14,845
	30,092	57,954

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For the year ended 31 December 2016

24. BILLS AND TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**727,104**	714,633
Less: Allowance for bad and doubtful debts	**(79,678)**	(63,416)
	647,426	651,217
Portion classified as non-current assets	**(59,664)**	–
Current portion	**587,762**	651,217
Bills receivables	**223**	–
	587,985	651,217

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

	2016 HK$'000	2015 HK$'000
0 to 180 days	**223**	–

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:

	2016 HK$'000	2015 HK$'000
Within 3 months	**308,143**	232,746
3 to 12 months	**100,881**	128,731
1 to 2 years	**127,717**	148,305
Over 2 years	**110,685**	141,435
	647,426	651,217

At 31 December 2016, included in the trade receivables are amounts with the Group's related companies of HK$134,214,000 (2015: HK$153,838,000), 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 37.

At 31 December 2016, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$249,993,000 (2015: HK$217,119,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. BILLS AND TRADE RECEIVABLES *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Less than 1 month past due	**44,403**	45,886
1 to 3 months past due	**47,671**	30,643
More than 3 months but less than 12 months past due	**57,814**	112,369
Over 1 year	**100,105**	28,221
	249,993	217,119

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. Apart from the trade receivables of certain construction services which bear interest at 4.75% per annum, other trade receivables are non-interest-bearing.

Movement in the allowance for doubtful debts — trade receivables

	2016 HK$'000	2015 HK$'000
1 January	**63,416**	55,231
Allowance for bad and doubtful debts	**34,138**	11,869
Reverse for bad and doubtful debts	**(11,305)**	–
Amounts written off as uncollectible	**(1,580)**	(13)
Effect of foreign currency differences	**(4,991)**	(3,671)
31 December	**79,678**	63,416

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Other receivables	**35,395**	31,466
Less: Allowance for bad and doubtful debts	**(1,124)**	(442)
	34,271	31,024
Prepayments and deposits	**78,893**	45,975
Tax recoverable	**755**	216
	113,919	77,215

At 31 December 2016, included in the Group's other receivables are amounts with related companies of HK$20,422,000 (2015: HK$941,000), which are unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 37.

Movement in the allowance for doubtful debts — other receivables

	2016 HK$'000	2015 HK$'000
1 January	**442**	1,425
Allowance for bad and doubtful debts	**939**	127
Amounts written off as uncollectible	**(197)**	(1,022)
Effect of foreign currency differences	**(60)**	(88)
31 December	**1,124**	442

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

Time deposits at 31 December 2016 represented bank deposits placed in banks in Hong Kong and the PRC. The interest rate was fixed at 1.2 % (2015: 3.95% to 4.2%) per annum in 2016.

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 2016 carried an interest rate from 0.35% to 6% (2015: 0.35% to 4.2%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. TIME DEPOSITS/PLEDGED BANK DEPOSITS/STRUCTURED BANK DEPOSITS/ BANK BALANCES AND CASH *(Continued)*

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturities of three months or less. Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for various periods ranging from 1 to 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The interest rate for short-term bank deposits during the year ended 31 December 2016 is approximately from 1.1% to 1.35% (2015: 1.25%) per annum.

At 31 December 2016, certain time deposit, bank balances and cash, pledged bank deposits and structured bank deposits of approximately HK$313,862,000 (2015: HK$465,672,000) 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.

27. BILLS, TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Bills payable	**5,641**	8,267
Trade payables	**158,950**	235,984
Other tax payables	**37,312**	33,001
Advance from customers, other payables and accrued charges	**91,610**	92,757
	293,513	370,009

At 31 December 2016, included in the Group's trade payables are amounts with related parties of approximately HK$6,996,000 (2015:HK$24,589,000) 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 37.

At 31 December 2016, included in the Group's advance from customers, other payables and accrued charges is an amount with a related party of approximately HK$33,733,000 (2015: HK$36,131,000) which is unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 37.

At 31 December 2016, 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$26,056,000(2015: HK$27,679,000) which is unsecured, interest-free and have no fixed terms of repayment.

At 31 December 2016, included in the Group's advance from customers, other payables and accrued charges is an amount of HK$7,486,000 (2015: HK$11,183,000), which represents the excess balance of the unrealized profits of sales to joint ventures over the share of their net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. BILLS, TRADE AND OTHER PAYABLES *(Continued)*

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

	2016 HK$'000	2015 HK$'000
0 to 180 days	**5,641**	8,267

The Group normally receives credit terms of 30 days to 180 days (2015: 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:

	2016 HK$'000	2015 HK$'000
Within 3 months	**85,588**	162,127
3 to 12 months	**32,652**	32,690
1 to 2 years	**19,375**	33,505
Over 2 years	**21,335**	7,662
	158,950	235,984

28. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured	**85,980**	72,325
Unsecured	**53,621**	–
	139,601	72,325
Carrying amounts repayable:		
Within one year or on demand	**139,601**	72,325

At 31 December 2016, the Group's bank borrowings denominated in RMB, HK$ and US$ amounted to HK$109,476,000 (equivalent to RMB98,000,000), HK$3,000,000 (2015: HK$45,200,000) and HK$27,125,000 (equivalent to US$3,500,000) (2015: HK$27,125,000 (equivalent to US$3,500,000)). The RMB denominated bank loan carries interest at 4.35%, HK$ denominated bank loan carries interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 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 2016, included in the Group's bank borrowings repayable within one year or on demand are secured bank loans of HK$85,980,000 (2015: HK$72,325,000) and an unsecured bank loan of HK$53,621,000 all with on-demand clauses.

Details of assets pledged by the Group at the end of the reporting period are set out in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	1,079,000,000	107,900

30. SHARE OPTION SCHEMES

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

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

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

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

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30. SHARE OPTION SCHEMES *(Continued)*

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

No share option was granted during the year ended 31 December 2016 and 2015. The share options outstanding under the Scheme during the years ended 31 December 2016 and 2015 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2016
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	2,020,000	–	–	(230,000)	1,790,000
				4,955,000	–	–	(230,000)	4,725,000
Exercisable at the end of the year								2,485,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. SHARE OPTION SCHEMES *(Continued)*

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
				4,970,000	–	–	(15,000)	4,955,000
Exercisable at the end of the year								2,485,000

At 31 December 2016, the number of shares in respect of which options under the Scheme had been granted and remained outstanding was 4,725,000 (2015: 4,955,000), representing 0.44 % (2015: 0.46%) of the shares of the Company in issue at that date.

During the year ended 31 December 2016, the Group recognised total expenses of HK$195,000 (2015: HK$515,000) in relation to share options granted by the Company.

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31. 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.

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 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 and 2016	17,370	–	17,370

During the year ended 31 December 2016, no ordinary share was acquired by the trustee. During the year ended 31 December 2015, based on the Company's instruction, the trustee acquired 8,234,000 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.

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31. SHARE AWARD SCHEMES *(Continued)*

During the year ended 31 December 2016, there was no shares awarded or vested. Summary of particulars of the shares awarded or vested under the Share Award Scheme during the year ended 31 December 2015 was as follows:

				Number of awarded shares		
Date of grant	Number of awarded shares granted	Fair value	Vesting period	At 1 January 2015	Vested during the year	At 31 December 2015 and 2016
		HK$'000				
16 October 2014	1,489,000	2,063	1 year	1,489,000	(1,489,000)	–
Total	1,489,000	2,063		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.

No share award expense was recognised during the year ended 31 December 2016. The Group recognised a share award expense of HK$1,633,000 during the year ended 31 December 2015.

32. ACQUISITION OF SUBSIDIARIES

Year ended 31 December 2016:

On 30 December 2016, the Group subscribed additional capital of RMB13,300,000 (equivalent to approximately HK$14,165,000) in Guangdong Suitong (as define in note 17). Upon completion of the subscription, the Group's interest in Guangdong Suitong increased from 51% to 94.19%. At the same date, a revised Articles of Association was approved by the board of directors of Guangdong Suitong, and the Group obtained the control in Guangdong Suitong, and Guangdong Suitong became a subsidiary of the Group. Guangdong Suitong 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 Guangdong, PRC.

In December 2016, the Group entered into a share purchase agreement with its joint venture partner, 南京浩德科技發展有限公司 (Nanjing Haode Technology Development Co., Ltd.), to acquire a 65% equity interest in Fuzhou Suda (as defined in note 17), which was previously a 35% owned joint venture of the Group. The purchase consideration for the acquisition was in the form of cash, with RMB10,750,000 (equivalent to approximately HK$12,009,000) which will be paid within two months after change in the registration. Together with the 35% equity interest held before the acquisition, the Group's interest in Fuzhou Suda increased to 100% after the acquisition. At the same date, a revised Articles of Association was approved by the board of directors of Fuzhou Suda, and the Group obtained the control in Fuzhou Suda, and Fuzhou Suda became a subsidiary of the Group. Fuzhou Suda 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 Fuzhou, PRC.

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32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2016: *(Continued)*

Consideration transferred:

	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Cash	14,165	12,009	26,174
Fair value of equity interest previously held as investment in a joint venture	7,656	6,508	14,164
	21,821	18,517	40,338

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

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

	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Property, plant and equipment	18,451	18,013	36,464
Amount due from related parties	–	335	335
Trade and other receivables	–	52	52
Bank balances and cash	316	83	399
Trade and other payables	–	(13)	(13)
	18,767	18,470	37,237

The fair value of trade and other receivables and amount due from related parties at the date of acquisition amounted to HK$387,000, which approximates the gross contractual amount. There are no contractual cash flows not expected to be collected.

Goodwill arising on acquisition:

	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Consideration transferred	21,821	18,517	40,338
Plus: non-controlling interests	1,092	–	1,092
Less: recognised amount of identifiable net assets acquired	(18,767)	(18,470)	(37,237)
Goodwill arising on acquisition	4,146	47	4,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2016: *(Continued)*

The non-controlling interests in Guangdong Suitong (5.81%) recognised at the acquisition date, was measured by reference to the proportionate share of the recognised amounts of net assets of Guangdong Suitong and amounted to HK$1,092,000.

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

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

Net cash outflow on the above acquisitions:

	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Cash consideration paid	14,165	12,009	26,174
Less: cash and cash equivalents acquired	316	83	399
	13,849	11,926	25,775

Impact of the acquisitions on the results of the Group:

There was no profit included in the profit attributable to Guangdong Suitong and Fuzhou Suda, and no revenue generated from Guangdong Suitong and Fuzhou Suda for the year ended 31 December 2016.

Had the above acquisitions been completed on 1 January 2016, total group revenue for the year would have been HK$496 million, and profit for the year would have been HK$39 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 2016, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

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 2016

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2015: *(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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2015: *(Continued)*

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.

33. OPERATING LEASES

The Group as lessee

	2016 HK$'000	2015 HK$'000
Minimum lease payments paid for the year under operating leases for premises	**11,954**	27,996

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:

	2016 HK$'000	2015 HK$'000
Within one year	**4,174**	4,211
In the second to fifth years inclusive	**3,516**	2,916
	7,690	7,127

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Contracted for but not provided for in respect of the acquisition of property, plant and equipment	**14,528**	20,475
Contracted for but not provided for in respect of the acquisition of land use right	**110,696**	35,826
Contracted for but not provided for capital contributions payable to a joint venture	**16,421**	–
Contracted for but not provided for capital contributions payable to available-for-sale investments	**2,616**	–
Authorised but not provided for in respect of the acquisition of property, plant and equipment	**6,250**	6,678

35. 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.

	2016 HK$'000	2015 HK$'000
Bank deposits	**46,845**	140,098
Trade receivables	**49,141**	–

36. 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$8,768,000 (2015: HK$7,186,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2016, contributions of HK$325,000 (31 December 2015: HK$363,000) due in respect of the year ended 31 December 2016 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 2016

37. 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	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Nanjin Lujie (note 1)	**88**	613	**–**	–	**–**	–
Guizhou Freetech(note 1)	**24,392**	–	**–**	–	**–**	–
Tianjin Expressway Group (note 2)	**–**	–	**–**	10,227	**98,528**	168,354
Subsidiaries of Tianjin Expressway Group	**–**	–	**–**	13,788	**–**	2,890
Associates of Tianjin Expressway Group	**–**	–	**–**	–	**2,996**	6,862

Notes:

(1) 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 itself is a 55% owned subsidiary of the Group.

(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 2016

37. RELATED PARTY DISCLOSURES *(Continued)*

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

Name of related parties	2016 HK$'000	2015 HK$'000
Guizhou Freetech (note 1)	**27,421**	–
Guangdong Suitong (note 2)	**–**	19,107
Nanjing Lujie (note 1)	**2,266**	1,669
Lianyungang Luda (note 1)	**–**	358
Tianjin Expressway Group	**120,408**	120,597
Subsidiaries of Tianjin Expressway Group	**2,727**	3,220
Associates of Tianjin Expressway Group	**1,814**	9,828
	154,636	154,779

Notes:

(1) A joint venture of the Group.

(2) Guangdong Suitong was a joint venture previously but became a subsidiary of the Group during the year ended 31 December 2016.

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

Name of related parties	2016 HK$'000	2015 HK$'000
Nanjing Lujie	**1,491**	542
Fuzhou Suda(note)	**–**	358
Lianyungang Luda	**168**	358
Tianjin Expressway Group	**34,568**	45,893
Subsidiaries of Tianjin Expressway Group	**4,502**	13,569
	40,729	60,720

Note: Fuzhou Suda was a joint venture previously but became a subsidiary of the Group during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2016 and 2015 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 2016	2015	Principal activities
Freetech Road Recycling Engineering Limited (Note a)	British Virgin Islands — limited liability company 23 November 2009	Share — US$2 (2015: US$2)	**100%**	100%	Investment holding
BS (BVI) Limited (Note a)	British Virgin Islands — limited liability company 30 March 2011	Share — US$1 (2015: US$1)	**100%**	100%	Investment holding
Freetech Road Maintenance Engineering Co., Limited	Hong Kong — limited liability company 17 August 2001	Share — HK$3 (2015: 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 (2015: 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 (2015: 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 (2015: US$5,050,000)	**100%**	100%	Sale of road maintenance equipment
Nanjing Freetech Vehicle Manufacturing (as defined in note 13)	PRC — Sino-foreign joint venture 21 June 2005	Registered capital — US$9,700,000 (2015: 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 (2015: 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 (2015: RMB10,000,000)	**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 (2015: RMB35,000,000)	**59%**	59%	Provision of road maintenance services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. 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 2016	2015	Principal activities
Suqian Hengtong (as defined in note 17)	PRC — Limited liability company 31 May 2012	Registered capital — RMB35,000,000 (2015: 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 (2015: RMB20,000,000)	**89%**	89%	Provision of road maintenance services
Freetech Smart Road (as defined in note 32)	Hong Kong — limited liability company 11 August 2014	Registered capital — HK$50,000 (2015: 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 (2015: RMB44,444,400)	**55%**	55%	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 (2015: HK$100,000,000)	**75%**	75%	Investment holding
Quanzhou Futech Road Recycling (as defined in note 20)	PRC — Limited liability company 6 June 2012	Registered capital — HK$63,000,000 (2015: HK$63,000,000)	**75%**	75%	Provision of road maintenance services
英達置業(南京)有限公司 Freetech Real Estate (Nanjing) Co., Ltd.	PRC — Limited liability company 28 November 2016	Registered capital — RMB165,000,000	**100%**	NA	Real estate
英達循環科技裝備(南京)有限公司 Freetech Recycling Technology Equipment (Nanjing) Limited	PRC — Limited liability company 10 May 2016	Registered capital — USD24,000,000	**100%**	NA	Sale of road maintenance equipment
Guangdong Suitong (as defined in note 17)	PRC — Limited liability company 16 January 2013	Registered capital — RMB25,300,000	**94.19%** (note b)	NA	Provision of road maintenance services
Fuzhou Suda (as defined in note 17)	PRC — Limited liability company 14 June 2013	Registered capital — RMB25,000,000	**100%** (note b)	NA	Provision of road maintenance services

Notes:

(a): Directly held by the Company.

(b): Guangdong Suitong and Fuzhou Suda are previously joint ventures of the Group. Additional equity interests are acquired during the year and control are obtained, details of which are set out in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. 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 2016, the Group has 28 (2015:21) subsidiaries. The above table lists the 20 (2015:16) 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 8 (2015: 5) subsidiaries that are not material to the Group. These subsidiaries operate in the PRC and Hong Kong. Out of the Group's total 28 (2015: 21) subsidiaries, 18 (2015:13) 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	
		31/12/16	31/12/15	**31/12/16**	31/12/15	**31/12/16**	31/12/15
				HK$'000	HK$'000	**HK$'000**	HK$'000
Freetech Ordos	PRC	**47%**	47%	**3,962**	(2,224)	**16,287**	13,354
Hunan Freetech Tongqu	PRC	**41%**	41%	**(1,325)**	4,254	**15,151**	17,553
Tianjin Expressway Maintenance	PRC	**45%**	45%	**152**	1,383	**40,777**	43,437
Individually subsidiaries with immaterial non-controlling interests						**21,050**	23,598
						93,265	97,942

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.

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For the year ended 31 December 2016

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

Freetech Ordos

	2016 HK$'000	2015 HK$'000
Current assets	**40,758**	32,055
Non-current assets	**10,586**	13,772
Current liabilities	**16,699**	17,424
Equity attributable to owners of the Company	**18,358**	15,049
Non-controlling interests	**16,287**	13,354
Revenue	**19,205**	10,839
Expenses	**10,776**	15,572
Profit (Loss) attributable to owners of the Company	**4,467**	(2,509)
Profit (Loss) attributable to the non-controlling interests	**3,962**	(2,224)
Profit (Loss) for the year	**8,429**	(4,733)
Other comprehensive expense attributable to owners of the Company	**(1,160)**	(973)
Other comprehensive expense attributable to the non-controlling interests	**(1,029)**	(863)
Other comprehensive expense for the year	**(2,189)**	(1,836)
Total comprehensive income (expense) attributable to owners of the Company	**3,307**	(3,482)
Total comprehensive income (expense) attributable to the non-controlling interests	**2,933**	(3,087)
Total comprehensive income (expense) for the year	**6,240**	(6,569)
Dividends paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**14,586**	(505)
Net cash inflow (outflow) from investing activities	**(1,200)**	–
Net cash inflow from financing activities	**–**	–
Net cash inflow (outflow)	**13,386**	(505)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Hunan Freetech Tongqu

	2016 HK$'000	2015 HK$'000
Current assets	**19,258**	24,306
Non-current assets	**20,163**	25,647
Current liabilities	**2,521**	7,197
Equity attributable to owners of the Company	**21,749**	25,203
Non-controlling interests	**15,151**	17,553

	2016 HK$'000	2015 HK$'000
Revenue	**3,337**	27,762
Expenses	**6,568**	17,388
(Loss) profit attributable to owners of the Company	**(1,906)**	6,120
(Loss) profit attributable to the non-controlling interests	**(1,325)**	4,254
(Loss) profit for the year	**(3,231)**	10,374
Other comprehensive expense attributable to owners of the Company	**(1,548)**	(1,433)
Other comprehensive expense attributable to the non-controlling interests	**(1,076)**	(996)
Other comprehensive expense for the year	**(2,624)**	(2,429)
Total comprehensive (expense) income attributable to owners of the Company	**(3,454)**	4,687
Total comprehensive (expense) income attributable to the non-controlling interests	**(2,401)**	3,258
Total comprehensive (expense) income for the year	**(5,855)**	7,945
Dividends paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**3,764**	(1,483)
Net cash outflow from investing activities	**(10)**	(661)
Net cash (outflow) inflow from financing activities	**(2,333)**	2,488
Net cash inflow	**1,421**	344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Tianjin Expressway Maintenance

	2016 HK$'000	2015 HK$'000
Current assets	**208,159**	300,607
Non-current assets	**16,347**	14,562
Current liabilities	**133,840**	218,592
Equity attributable to owners of the Company	**49,889**	53,140
Non-controlling interests	**40,777**	43,437

	2016 HK$'000	1 September 2015 to 31 December 2015 HK$'000
Revenue	**114,450**	191,207
Expenses	**114,111**	188,132
Profit attributable to owners of the Company	**187**	1,692
Profit attributable to the non-controlling interests	**152**	1,383
Profit for the year/period	**339**	3,075
Other comprehensive expense attributable to owners of the Company	**(3,437)**	(955)
Other comprehensive expense attributable to the non-controlling interests	**(2,812)**	(780)
Other comprehensive expense for the year/period	**(6,249)**	(1,735)
Total comprehensive (expense) income attributable to owners of the Company	**(3,250)**	737
Total comprehensive (expense) income attributable to the non-controlling interests	**(2,660)**	603
Total comprehensive (expense) income for the year/period	**(5,910)**	1,340
Dividends paid to non-controlling interests	**–**	–
Net cash outflow (inflow) from operating activities	**(58,406)**	19,695
Net cash outflow from investing activities	**(1,137)**	(78)
Net cash inflow (outflow) from financing activities	**–**	–
Net cash outflow (inflow)	**(59,543)**	19,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2016 HK$'000	2015 HK$'000
ASSETS		
Property, plant and equipment	**433**	974
Investments in subsidiaries	**1,253,923**	1,253,923
Prepayments, deposits and other receivables	**852**	1,052
Dividend receivable	**241,352**	241,352
Amounts due from subsidiaries	**566,909**	626,405
Bank balances and cash	**848**	2,550
	2,064,317	2,126,256
LIABILITIES		
Other payables and accruals	**74**	1,672
Amounts due to subsidiaries	**101**	–
Bank borrowing	**–**	16,200
	175	17,872
NET ASSETS	**2,064,142**	2,108,384
CAPITAL AND RESERVES		
Share capital	**107,900**	107,900
Reserves	**1,956,242**	2,000,484
Total equity	**2,064,142**	2,108,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. 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 2015	732,463	1,253,901	(19,724)	555	21,198	(314)	1,988,079
Profit 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 31)	–	–	–	1,633	–	–	1,633
Equity-settled share option arrangements (note 30)	–	–	–	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
Loss for the year	–	–	–	–	(24,970)	–	(24,970)
Other comprehensive expense for the year	–	–	–	–	–	(45)	(45)
Total comprehensive income (expense) for the year	–	–	–	–	(24,970)	(45)	(25,015)
Equity-settled share option arrangements (note 30)	–	–	–	195	–	–	195
Dividend recognised as distribution	–	–	–	–	(19,422)	–	(19,422)
At 31 December 2016	732,463	1,253,901	(26,584)	835	(4,445)	72	1,956,242

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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**495,598**	616,641	390,434	628,709	486,003
Profit before taxation	**55,110**	77,621	65,515	219,995	193,003
Taxation	**10,686**	11,913	11,465	39,944	42,630
Profit for the year	**44,424**	65,708	54,050	180,051	150,373

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,634,899**	1,703,781	1,363,792	1,469,073	636,438
Total liabilities	**444,929**	462,904	149,552	254,858	393,689
Net assets	**1,189,970**	1,240,877	1,214,240	1,214,215	242,749

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