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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)

(Stock Code: 6888)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

The board of directors (the “Board”) of Freetech Road Recycling Technology (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six-month period ended 30 June 2014 (the “Period”).

FINANCIAL HIGHLIGHTS

	Six-month period ended 30 June		
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000	Increase/ (decrease)
Revenue	156,744	261,409	(40.0%)
Gross profit	65,043	138,981	(53.2%)
Profit attributable to owners of the parent	13,296	65,826	(79.8%)
Earnings per share (Basic) (HK cents)	1.23	8.72	(85.9%)
Gross profit margin ¹	41.5%	53.2%	

¹ (gross profit/revenue) x 100%

FINANCIAL RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2014

		Six-month period ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	4	156,744	261,409
Cost of sales		<u>(91,701)</u>	<u>(122,428)</u>
Gross profit		65,043	138,981
Other income and gains	4	9,328	2,937
Selling and distribution expenses		(11,254)	(8,414)
Administrative expenses		(37,384)	(38,938)
Other expenses		(9,159)	(4,720)
Finance costs	5	(1,670)	(3,354)
Share of profits and losses of:			
Joint ventures		(1,140)	(1,608)
Associates		<u>(715)</u>	<u>(490)</u>
PROFIT BEFORE TAX	6	13,049	84,394
Income tax expense	7	<u>(684)</u>	<u>(19,353)</u>
PROFIT FOR THE PERIOD		<u><u>12,365</u></u>	<u><u>65,041</u></u>
Attributable to:			
Owners of the parent		13,296	65,826
Non-controlling interests		<u>(931)</u>	<u>(785)</u>
		<u><u>12,365</u></u>	<u><u>65,041</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u><u>HK1.23 cents</u></u>	<u><u>HK8.72 cents</u></u>
Diluted		<u><u>HK1.23 cents</u></u>	<u><u>HK8.72 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six-month period ended 30 June 2014*

	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>12,365</u>	<u>65,041</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(2,040)</u>	<u>4,905</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(2,040)</u>	<u>4,905</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>10,325</u></u>	<u><u>69,946</u></u>
Attributable to:		
Owners of the parent	11,747	70,384
Non-controlling interests	<u>(1,422)</u>	<u>(438)</u>
	<u><u>10,325</u></u>	<u><u>69,946</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		163,113	160,861
Prepaid land lease payments		6,512	6,780
Goodwill		731	731
Other intangible assets		58	100
Deposit		24,333	–
Investments in joint ventures		46,704	39,433
Investments in associates		8,971	9,283
Deferred tax assets		14,198	15,320
Total non-current assets		264,620	232,508
CURRENT ASSETS			
Inventories		42,334	33,360
Trade and bills receivables	10	482,903	548,784
Prepayments, deposits and other receivables		56,197	39,649
Other financial assets		69,955	–
Pledged deposits		–	75
Cash and bank balances		423,267	614,697
Total current assets		1,074,656	1,236,565
CURRENT LIABILITIES			
Trade payables	11	74,798	79,163
Other payables and accruals		45,394	70,510
Interest-bearing bank borrowings		38,261	49,629
Tax payable		4,512	16,829
Total current liabilities		162,965	216,131
NET CURRENT ASSETS		911,691	1,020,434
TOTAL ASSETS LESS CURRENT LIABILITIES		1,176,311	1,252,942
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		–	21,772
Deferred tax liabilities		13,123	16,955
Total non-current liabilities		13,123	38,727
Net assets		1,163,188	1,214,215

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	<i>Note</i>		
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	107,900	107,900
Reserves		1,038,410	1,026,663
Shares held under the share award scheme		(2,007)	–
Proposed final dividend		–	59,345
		<hr/>	<hr/>
		1,144,303	1,193,908
Non-controlling interests		18,885	20,307
		<hr/>	<hr/>
Total equity		1,163,188	1,214,215
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the period, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the manufacturing and sale of road maintenance equipment and provision of road maintenance services in the People’s Republic of China (the “PRC”).

In the opinion of the directors of the Company, the ultimate holding company of the Company is Freotech Technology Limited, which was incorporated in Hong Kong and is wholly owned and controlled by Mr. Sze Wai Pan, a director of the Company.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those of the Group for the year ended 31 December 2013, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) that affect the Group and are adopted the first time for the current period’s unaudited condensed consolidated interim financial statements:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> — <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets</i> — <i>Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> — <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of the above new and revised HKFRSs has had no significant impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

3. OPERATING SEGMENT INFORMATION

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

- (a) the provision of road maintenance services segment; and
- (b) the manufacturing and sale of road maintenance equipment segment.

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

Geographic information

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

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the six-month period ended 30 June 2014 and 2013 is set out below:

	Six-month period ended 30 June	
	2014	2013
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Customer A — Provision for road maintenance services	42,825	—
Customer B — Provision for road maintenance services	19,043	—
Customer C — Provision for road maintenance services	18,628	—
Customer D — Provision for road maintenance services	—	29,040

For the six-month period ended 30 June 2014

	Provision of road maintenance services (Unaudited) HK\$'000	Manufacturing and sale of maintenance equipment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	125,615	31,129	156,744
Intersegment sales	–	–	–
Other revenue	2,485	111	2,596
	128,100	31,240	159,340
<i>Reconciliation:</i>			
Elimination of intersegment sales			–
Revenue			159,340
Segment results	20,171	10,483	30,654
<i>Reconciliation:</i>			
Interest income			6,732
Exchange losses			(8,374)
Corporate and unallocated expenses			(12,438)
Share of profits and losses of joint ventures and associates			(1,855)
Finance costs			(1,670)
Profit before tax			13,049
Other segment information:			
Impairment losses recognised/(reversed) in the statement of profit or loss	(231)	656	425
Depreciation and amortisation	8,881	1,620	10,501
Capital expenditure*	15,746	1,970	17,716

* Capital expenditure consists of additions to property, plant and equipment, land use rights and other intangible assets.

For the six-month period ended 30 June 2013

	Provision of road maintenance services (Unaudited) <i>HK\$'000</i>	Manufacturing and sale of maintenance equipment (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue:			
Sales to external customers	150,060	111,349	261,409
Intersegment sales	–	3,104	3,104
Other revenue	1,477	51	1,528
	<u>151,537</u>	<u>114,504</u>	<u>266,041</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(3,104)</u>
Revenue			<u><u>262,937</u></u>
Segment results	43,350	64,149	107,499
<i>Reconciliation:</i>			
Interest income			398
Exchange gains			1,011
Corporate and unallocated expenses			(19,062)
Share of profits and losses of joint ventures and associates			(2,098)
Finance costs			<u>(3,354)</u>
Profit before tax			<u><u>84,394</u></u>
Other segment information:			
Impairment losses recognised/(reversed) in the statement of profit or loss	1,058	(43)	1,015
Depreciation and amortisation	8,236	1,690	9,926
Capital expenditure*	18,843	1,189	20,032

* Capital expenditure consists of additions to property, plant and equipment, land use rights and other intangible assets.

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and gains		
Government grants*	1,915	1,424
Interest income	6,732	398
Foreign exchange differences, net	–	1,011
Others	681	104
	9,328	2,937

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

5. FINANCE COSTS

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

	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	1,670	3,354

6. PROFIT BEFORE TAX

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

	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	10,360	9,774
Amortisation of other intangible assets	39	51
Amortisation of land lease payments	102	101
Minimum lease payments under operating leases of land and buildings	3,470	2,849
Loss on disposal of items of property, plant and equipment*	1,001	402
Impairment of trade receivables*	721	1,201
Reversal of impairment of other receivables*	(296)	(186)
Foreign exchange differences, net	8,374	(1,011)

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

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: 16.5%).

PRC corporate income tax (“CIT”) represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC CIT rate of 25% except for certain PRC subsidiaries which were entitled to preferential tax rates during the six-month period ended 30 June 2014 and 2013.

During the six-month period ended 30 June 2014 and 2013, 英達熱再生有限公司 (Freetech Road Recycling Corporation*) and 南京英達公路養護車製造有限公司 (Nanjing Freetech Road Maintenance Vehicle Manufacturing Corporation*), which were indirect wholly-owned subsidiaries of the Company, were registered as high-and-new technology enterprises, and were subject to PRC CIT at a concession rate of 15% on the assessable profits.

* For identification purpose only

	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong	—	1,235
Current — Mainland China	3,321	18,475
Deferred	(2,637)	(357)
	<hr/>	<hr/>
Total tax charge for the period	684	19,353
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The share of tax credit attributable to joint ventures for the six-month period ended 30 June 2014 amounting to HK\$6,000 (six-month period ended 30 June 2013: Nil) is included in “Share of profits and losses of joint ventures” in the condensed consolidated statement of profit or loss.

8. DIVIDENDS

On 7 June 2013, the Company declared the dividend distribution totalling HK\$60,000,000 to its shareholders before the listing of the shares of the Company. Investors becoming shareholders of the Company after the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited were not entitled to such dividend. No other dividends were declared or paid by the Company during the six-month period ended 30 June 2013.

At a meeting of the board of directors held on 29 August 2014, the directors resolve not to pay any interim dividend to shareholders.

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

The calculation of basic earnings per share amounts for the six-month period ended 30 June 2014 is based on the unaudited profit for the period attributable to ordinary equity holders of the parent of HK\$13,296,000 (six-month period ended 30 June 2013: HK\$65,826,000) and the weighted average number of ordinary shares in issue of 1,079,000,000 (six-month period ended 30 June 2013: 755,070,575).

The Group had no potentially dilutive ordinary shares in issue during the six-month periods ended 30 June 2014 and 2013.

10. TRADE AND BILLS RECEIVABLES

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Trade and bills receivables from third parties	444,012	431,070
Trade receivables from joint ventures and associates	75,572	154,586
	<hr/>	<hr/>
Impairment	(36,681)	(36,872)
	<hr/>	<hr/>
	482,903	548,784
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The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is determined on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Except for a trade receivable of approximately HK\$10,016,000 as at 30 June 2014 (31 December 2013: HK\$18,162,000) which provided a payment guarantee letter to the Group, the Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 3 months	116,144	220,444
3 to 12 months	256,642	194,645
1 to 2 years	90,123	96,760
Over 2 years	19,994	36,935
	<hr/>	<hr/>
	482,903	548,784
	<hr/>	<hr/>

As at 30 June 2014, included in the Group's trade and bills receivables are amounts due from joint ventures and associates of approximately HK\$71,925,000 (31 December 2013: HK\$150,360,000) and HK\$3,647,000 (31 December 2013: HK\$4,226,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

11. TRADE PAYABLES

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 3 months	42,486	34,715
3 to 12 months	7,670	18,070
1 to 2 years	15,457	5,297
Over 2 years	9,185	21,081
	74,798	79,163

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

As at 30 June 2014, included in the Group's trade payables is an amount due to an associate of approximately HK\$2,570,000 (31 December 2013: HK\$2,086,000), which is repayable within 90 days, which represents similar credit terms to those offered by the associate to its major customers.

12. SHARE CAPITAL

Shares

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Authorised:		
10,000,000,000 (31 December 2013: 10,000,000,000) ordinary shares of HK\$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
1,079,000,000 (31 December 2013: 1,079,000,000) ordinary shares of HK\$0.10 each	107,900	107,900

13. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Contracted, but not provided for:		
Land use rights	19,987	–
Property, plant and equipment	35,680	44,719
Capital contributions payable to joint ventures	16,465	7,838
Capital contributions payable to an associate	–	6,275
	72,132	58,832
Authorised, but not contracted for:		
Property, plant and equipment	10,658	11,766
	82,790	70,598

BUSINESS REVIEW

The Board is pleased to present the unaudited consolidated interim results of Freetech Road Recycling Technology (Holdings) Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the six-month period ended 30 June 2014 (the “Period”).

During the Period, despite the People’s Republic of China (the “PRC”) government actively promoted the green economy and the road recycling technology industry had maintained a satisfactory development trend, but the tightening of the domestic credit market has somewhat dragged on the otherwise positive momentum. During the Period, the existing businesses of the Group recorded a significant decline in profit mainly due to the adjustment of the Group’s business strategies (the number of new joint venture being set up and the number of modular series being sold were significantly declined) resulted significant decrease in revenue of Asphalt Pavement Maintenance (“APM”) equipment, the APM services projects were performed in lower selling price area and increase in operating costs. As at 30 June 2014, the Group had a total of nine (as at 31 December 2013: nine) joint ventures and associates engaging in the provision of APM services. During the Period, the Group had appointed an additional five local APM service providers as its franchisees to promote the Group’s “Hot-in-Place” recycling technology in particular cities and as at 30 June 2014, it had a total of eleven franchisees (as at 31 December 2013: six).

During the Period, the Group’s operating revenue was approximately HK\$156.7 million, representing a decrease of approximately 40.0%, as against the corresponding period of 2013. Total profit attributable to owners of the parent was approximately HK\$13.3 million, representing a decrease of approximately 79.8%, as against the corresponding period of 2013. Notwithstanding the above, the Group manages to continue to be a leading service provider using “Hot-in-Place” recycling technology in the APM industry in the PRC.

APM Services

During the Period, the Group remained as a leading service provider in PRC market using “Hot-in-Place” recycling technology in the provision of APM services. Especially in the municipal road market, the Group is the key player to perform APM services. In addition, the Group successfully completed a trial APM maintenance contract using its “Hot-in-Place” technology at the runway of the Changsha Huanghua International Airport (長沙黃花國際機場), Changsha, the Hunan Province of the PRC. During the Period, the total APM area serviced remained stable, and the Group completed 1.20 million square metres (six-month period ended 30 June 2013: 1.17 million square metres). As part of the APM services project was performed in lower selling price area in the Period and the corresponding period of 2013 included revenue generated from the city excavation rapid backfilling restoration process (城市道路開挖快速回填恢復施工工藝) which had higher selling price than other “Hot-in-Place” road maintenance projects, the APM services segment recorded revenue of approximately HK\$125.6 million, representing a decrease of 16.3% as against the corresponding period of 2013.

APM Equipment

During the Period, as a result of the adjustment of the Group's business strategies to appoint some local experienced APM service providers as its franchisees and the Company would like to focus on managing the existing joint ventures and assist them to seize the business opportunity of road inspection which will be conducted in 2015, the number of new joint venture and associate being set up and the number of modular series being sold were nil during the Period, the APM equipment segment of the Group generated revenue of HK\$31.1 million, representing a significant decrease of 72.0% as against the corresponding period of 2013. Notwithstanding this, the Board considers that the Group has maintained its position as the leading APM equipment provider in the PRC market.

Research and Development

To maintain its leading position in using "Hot-in-Place" recycling technology in the APM industry, the Group continues to place emphasis on technological innovation.

New Patents

In addition, the Group continued to invest significant resources in research and development. As at 30 June 2014, it had registered 94 patents (as at 31 December 2013: 87), of which eight were invention patents (as at 31 December 2013: seven), 74 were utility model patents (as at 31 December 2013: 70) and 12 were design patents (as at 31 December 2013: 10), and it had eight patent pending applications (as at 31 December 2013: 18), of which eight were invention patents (as at 31 December 2013: 12 were invention patents, four were utility model patents and two were design patents).

New Product Series

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

In the maintenance technology research sector, the Group successfully completed a trial APM maintenance contract using its "Hot-in-Place" technology at the runway of the Changsha Huanghua International Airport (長沙黃花國際機場) ("Trial Project"), Changsha, the Hunan Province of the PRC. The successful application of the Group's "Hot-in-Place" recycling technology in this new market demonstrated the high flexibility and efficiency of the Group's advanced technology because according to the regulatory requirements of the Civil Aviation Administration of China (中國民航局), the maintenance work on the airport runway is to be

conducted during hours without flight take-off and landing. In addition, a qualified independent third party testing institution issued a report stating that the test results for the maintenance services provided under the Trial Project satisfied the requirements of the Specifications For Asphalt Concrete Pavement Construction Of Civil Airports (民用機場瀝青混凝土道面施工技術規範). The Company believes that this breakthrough could potentially lead to more business opportunities for the Group in the future.

Others

With strong research and development capabilities, the Group is able to adopt the most advanced technologies in the APM industry, provides customised solutions to its clients and maintains its competitive edges and leading status in the APM industry by using recycling technology.

Production Capacity

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

OUTLOOK

The Group believes that there will be tremendous market opportunities for the Group in view of (i) the overall sustained growth of the APM industry in the PRC and the existing penetration rate of recycling technology is still very low; and (ii) the Ministry of Transport of the PRC will conduct road inspections on highways in the second half of 2015 to check the quality and condition of the road maintenance work.

As a leading service provider of “Hot-in-Place” recycling technology in the APM industry, the Group intends to build on its competitive advantages to benefit from the current favorable government policies. The Group aims to continuously strengthen its market position and increase its market share through: (i) investing more resources to maintain our leading role in providing APM services through establishing more sales offices and appointing more salesman in different cities in the PRC; (ii) increase market penetration, particularly in cities where the use of “Hot-in-Place” recycling technology is currently relatively limited; (iii) appointing more local APM service providers as its franchisees; (iv) establishing new joint ventures; (v) further strengthening its research and development capabilities and increasing its equipment production and service capacities; and (vi) expanding into the international market by providing APM services and selling APM equipment.

Looking ahead, the Group remains optimistic about the Group’s long term prospects. The Group is committed to upholding its development principle — “Efficient use of technology to create multi-win situation” (“善用科技，共創多贏”), and generating better returns for its shareholders.

FINANCIAL PERFORMANCE REVIEW

The Group consists of two main business segments: the APM service segment, where it provides APM services under its registered trademark “公路醫生®” (Road Doctor) to repair damaged asphalt pavement surfaces, and the APM equipment segment, where it manufactures and sells a wide range of APM equipment.

The following is a description of the Group’s operating activities during the Period, with comparisons against the corresponding period for 2013.

REVENUE

a. APM Services

	Six-month period ended 30 June		
	2014	2013	Increase/ (decrease)
	Unaudited	Unaudited	
	HK\$'000	HK\$'000	
Revenue	125,615	150,060	(16.3%)
Gross profit	47,060	65,095	(27.7%)
Gross profit margin	37.5%	43.4%	
APM area serviced (square metres)	1,202,000	1,171,000	2.6%

Revenue and gross profit for this segment both decreased against the corresponding period in 2013. Although the total area serviced remained stable against the corresponding period in 2013 due to part of the APM services projects were performed in lower selling price area in the Period and the corresponding period of 2013 included revenue generated from the city excavation rapid backfilling restoration process (城市道路開挖快速回填恢復施工工藝) which had higher selling price than other “Hot-in-Place” road maintenance projects, revenue for the Period decreased by 16.3% against the corresponding period in 2013.

During the Period, as part of the APM services projects were conducted in lower selling price area and raw materials cost had increased as customers requested to use higher price raw materials which the Company was able to transfer this higher cost to the customers at cost, the gross profit margin in this segment decreased from 43.4% in 2013 to 37.5% for the Period.

b. APM Equipment

	Six-month period ended 30 June				Increase/ (decrease)
	2014		2013		
	Unaudited <i>HK\$'000</i>	units/ sets	Unaudited <i>HK\$'000</i>	units/ sets	
Revenue					
Standard series	28,796	16	38,003	17	(24.2%)
Modular series	–	–	71,299	4	(100.0%)
Repair and maintenance	<u>2,333</u>	N/A	<u>2,047</u>	N/A	14.0%
Total	<u>31,129</u>		<u>111,349</u>		(72.0%)

	Six-month period ended 30 June				Increase/ (decrease)
	2014		2013		
	Unaudited		Unaudited		
	<i>HK\$'000</i>	Margin	<i>HK\$'000</i>	Margin	
Gross profit					
Standard series	16,233	56.4%	21,822	57.4%	(25.6%)
Modular series	–	N/A	50,971	71.5%	(100.0%)
Repair and maintenance	1,750	75.0%	1,093	53.4%	60.1%
Total	17,983	57.8%	73,886	66.4%	(75.7%)

Revenue for the APM equipment segment for the Period decreased by 72.0% as against the corresponding period for 2013. This decrease was primarily due to the adjustment of the Group's business strategies to appoint some local experienced APM service providers as its franchisees and the Company would like to focus on managing the existing joint ventures and assist them to seize the business opportunity of road inspection which will be conducted in 2015. Thus, the number of new joint venture being set up and the number of modular series being sold were nil during the Period (six-month period ended 30 June 2013: three new joint ventures set up and four sets of modular series sold). The revenue generated from sales of modular series products in the Period decreased significantly as against the corresponding period for 2013. In addition, due to the restrictions on cash flow at the local government level in the PRC and most of the standard series sold in the Period were lower selling price models, revenue generated from sales of standard series products for the Period decreased by 24.2% as against the corresponding period in 2013.

Gross profit margin decreased from 66.4% for the six-month period ended 30 June 2013 to 57.8% for the Period, primarily due to significant decreases in sales of higher margin products, i.e. modular series products.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 33.8% for the Period as against the corresponding period in 2013, primarily due to (i) increased repair and maintenance requests during warranty period as more APM equipment was sold in the past few years; (ii) increase in the number of employees in the sales department; and (iii) increase in advertising expenses to promote the Group's products into new market.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately HK\$1.5 million, or approximately 3.9%, from HK\$38.9 million for the six-month period ended 30 June 2013 to HK\$37.4 million for the Period, primarily due to the net effect of (i) administrative expenses for the six-month period ended 30 June 2013 included one-off listing expenses of approximately HK\$15.7 million; (ii) the recognition of the unrealised exchange losses for cash and cash equivalent of the Group denominated in Renminbi; (iii) increase in the number of staffs and salary level in the Period; and (iv) increase in professional expenses during the Period after the Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

OTHER EXPENSES

Other expenses increased by approximately HK\$4.5 million, or approximately 95.7%, from approximately HK\$4.7 million for the six-month period ended 30 June 2013 to approximately HK\$9.2 million for the Period, primarily due to the effect of increased in research and development expenses.

FINANCE COSTS

Finance costs decreased by approximately HK\$1.7 million, or approximately 50.0%, from HK\$3.4 million for the six-month period ended 30 June 2013 to HK\$1.7 million for the Period, primarily due to the decreases in Group's bank loans balance as the Group's bank loans were settled by the proceeds from the Company's IPO in the second half of 2013.

SHARE OF PROFITS AND LOSSES OF JOINT VENTURES AND ASSOCIATES

The Group's share of losses from joint ventures was approximately HK\$1.6 million for the six-month period ended 30 June 2013 and approximately HK\$1.1 million for the Period.

The Group's share of losses from associates was approximately HK\$0.5 million for the six-month period ended 30 June 2013 and approximately HK\$0.7 million for the Period.

The Company believes that these losses are primarily due to the early stage nature of the joint ventures and associates businesses.

INCOME TAX EXPENSES

Income tax expenses decreased by approximately HK\$18.7 million, or approximately 96.4%, from approximately HK\$19.4 million for the six-month period ended 30 June 2013 to approximately HK\$0.7 million for the Period, primarily as a result of the lower profit before tax earned by the Group during the Period.

PROFIT

Profit attributable to owners of the parent decreased by approximately HK\$52.5 million, or approximately 79.8%, from approximately HK\$65.8 million for the six-month period ended 30 June 2013 to approximately HK\$13.3 million for the Period, primarily due to the effect of decreased in revenue of APM equipment segment due to the number of new joint venture being set up and number of modular series being sold were significantly declined, decrease in gross profit margin of APM services segment due to the part of the APM services project was performed in lower selling price area, and increased in other costs such as selling and distribution expenses, administrative expenses and other expenses.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2014, the Group's cash and bank balances amounted to approximately HK\$423.3 million (as at 31 December 2013: HK\$614.7 million). The decrease was primarily due to the payment of a final dividend, purchased of the other financial assets, repayment of bank borrowings, deposit paid for the acquisition of leasehold lands for expanding the Group's research and development facilities and setting up a new training centre, and increase in operating costs. As at 30 June 2014, the bank borrowings of the Group amounted to HK\$38.3 million (as at 31 December 2013: HK\$71.4 million) and the Group was in a net cash position (as at 31 December 2013: net cash position).

Trade and bills receivables balance decreased from HK\$548.8 million as of 31 December 2013 to HK\$482.9 million as of 30 June 2014, which was due to the decrease in revenue and the receivables for APM services projects performed and APM equipment products sold near the end of 2013 were subsequently settled during the Period. As at the latest practicable date, third party customers had subsequently settled trade receivables amounting to HK\$25.9 million (equivalent to approximately RMB20.7 million).

As at 30 June 2014, the Group's liquidity position remained strong and the directors believe that this will enable the Group to expand in accordance with their plans. The Group strives to efficiently use its financial resources and adopt prudent financial policy in order to maintain a healthy capital ratio and support its business expansion requirements.

OTHER FINANCIAL ASSETS

As at 30 June 2014, the Group had other financial assets of approximately HK\$70.0 million (as at 31 December 2013: Nil). These other financial assets represents investments in certain money market instruments with low-risk level and return-guaranteed products denominated in Renminbi offered by certain commercial banks in PRC and have a term ranging from three months to four months. The effective interest rate and the returns for these short-term investment for the Period was 4.94% and HK\$938,000 (for the six-month period ended 30 June 2013: Nil and nil), respectively.

INTEREST-BEARING BANK BORROWINGS

As at 30 June 2014, the Group had total debt of HK\$38.3 million, which comprised:

- secured interest-bearing bank borrowings of HK\$8.3 million; and
- unsecured interest-bearing bank borrowings of HK\$30.0 million.

As at 30 June 2014, the secured interest-bearing bank borrowings were secured by:

- (i) mortgages over the Group's buildings with an aggregate carrying amount of approximately HK\$15.2 million; and
- (ii) mortgages over the Group's leasehold land with an aggregate carrying amount of approximately HK\$4.1 million.

The maturity profile of the interest-bearing bank borrowings is set out below:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Repayable		
Within one year or on demand	38,261	49,629
In the second year	<u>—</u>	<u>21,772</u>
	<u>38,261</u>	<u>71,401</u>

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 up to the period ended 30 June 2014 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

	Available	Net Proceeds	Unutilised
	<i>HK\$ million</i>	<i>Utilised</i>	<i>HK\$ million</i>
		<i>HK\$ million</i>	
Investment in research and development activities	137.4	58.5	78.9
Establishing joint ventures and expanding APM service teams	137.4	29.0	108.4
Manufacturing APM equipment and expanding its APM service teams	103.1	6.2	96.9
Acquisitions of other APM service providers	103.0	–	103.0
Constructing new production facility	68.7	34.6	34.1
Establishing sales offices in new markets and marketing expenses	68.7	8.0	60.7
General corporate purposes and working capital requirements	68.7	68.7	–
	<u>687.0</u>	<u>205.0</u>	<u>482.0</u>

The unutilised net proceeds has been deposited into short term deposits in bank accounts maintained by the Group and used in other financial assets in certain wealth management products which are low-risk level and with guaranteed return.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, there were no other significant investments held, nor were there any material acquisitions or disposals of any subsidiaries, associates or joint ventures during the Period. Apart from those disclosed in this announcement, there was no concrete plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group’s capital commitments are set out in note 13 to these interim condensed unaudited financial information.

As at 30 June 2014, the Group did not have any material contingent liabilities.

FINANCIAL RISK MANAGEMENT

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

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

The business of the Group is principally conducted in the PRC and most of the transactions are denominated in Renminbi, except for certain bank deposits which are denominated in United States dollars and Hong Kong dollars. In addition, the interest-bearing bank borrowings of the Group are denominated in Renminbi. The Group has not hedged its foreign currency risk.

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

EMPLOYEES AND REMUNERATION

As at 30 June 2014, the Group had a total of 551 full time employees (as at 31 December 2013: 558). The Group provides competitive remuneration packages to retain its employees including discretionary bonus schemes, medical insurance and other allowances and benefits in kind as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

EVENT AFTER THE REPORTING PERIOD

On 13 July 2014, the Company announced that Freetech Road Recycling Engineering Limited ("Freetech BVI"), a direct wholly-owned subsidiary of the Company and COSCO (H.K.) Industry & Trade Holdings Limited ("COSCO (H.K.) Industry and Trade"), an indirect wholly-owned subsidiary of COSCO Group, entered into a shareholders agreement in relation to the establishment of a joint venture company (the "JV Company"). Upon the establishment of the JV Company, Freetech BVI and COSCO (H.K.) Industry and Trade will own 51% and 49% of the shareholding interest in the JV Company, respectively and both parties propose to set up a joint venture company in the PRC with a local enterprise in agreed region and plan to invest a total of RMB40,000,000 according to their respective shareholding ratio.

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. During the Period, 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 Listing Rules, except code provision A.2.1 as more particularly described below.

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

AUDIT COMMITTEE

The audit committee of the Company has been set up in accordance with the Listing Rules. The audit committee comprises three independent non-executive directors, namely Ms. Yeung Sum (Chairman), Mr. Tang Koon Yiu Thomas and Mr. Lau Ching Kwong, (including one independent non-executive director with the appropriate professional qualifications).

At an audit committee meeting held on 28 August 2014, the audit committee, along with the management of the Company, reviewed the accounting principles and practices adopted by the Group and financial reporting matters as well as the interim condensed consolidated unaudited financial statements for the Period. The audit committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the Period.

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

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

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 Period except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the scheme, purchase a total of 909,000 shares of the Company at a total consideration of approximately HK\$2,007,000 on the market.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (for the six-month period ended 30 June 2013: Nil apart from the dividend distribution totalling HK\$60,000,000 declared on 7 June 2013 before the listing of shares of the Company).

PUBLICATION OF INTERIM RESULTS AND REPORT

The interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.freotech-holdings.hk.

The interim report of the Company for the six-month period ended 30 June 2014 will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

I wish to express my sincere gratitude to our management and staff members for their dedication and hard work during the Period. I would like to extend thanks to all our business partners, customers and shareholders for their support. I believe that they will continue to render support to the Group for our continuous growth and success in the future.

By order of the Board
Freotech Road Recycling Technology (Holdings) Limited
Sze Wai Pan
Chairman and Chief Executive Officer

Hong Kong, 29 August 2014

As at the date of this announcement, the executive Directors are Mr. Sze Wai Pan, Ms. Sze Wan Nga, Mr. Zhang Yifu and Mr. Chan Kai King; the non-executive Directors are Mr. Yeung Chin Chiu and Mr. Wang Lei; and the independent non-executive Directors are Ms. Yeung Sum, Mr. Tang Koon Yiu Thomas and Mr. Lau Ching Kwong.