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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 2015

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 2015 (the “Period”).

FINANCIAL HIGHLIGHTS

	Six-month period ended 30 June		
	2015 Unaudited HK\$'000	2014 Unaudited HK\$'000	Increase/ (decrease)
Revenue	197,767	156,744	26.2%
Gross profit	76,783	65,043	18.1%
Profit attributable to owners of the Company	18,380	13,296	38.2%
Earnings per share (Basic) (HK cents)	1.73	1.23	40.7%
Gross profit margin ¹	38.8%	41.5%	

¹ (gross profit/revenue) x 100%

FINANCIAL RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2015

		Six-month period ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	3	197,767	156,744
Cost of sales		(120,984)	(91,701)
Gross profit		76,783	65,043
Other income	4	7,925	9,328
Other gains and losses	5	(3,713)	(9,800)
Selling and distribution costs		(12,176)	(11,254)
Administrative expenses		(36,567)	(29,011)
Research and development costs		(9,453)	(7,529)
Other expenses		(183)	(203)
Share of losses of joint ventures		(943)	(1,140)
Share of losses of associates		–	(715)
Finance costs	6	(514)	(1,670)
PROFIT BEFORE TAXATION	7	21,159	13,049
Taxation	8	(3,866)	(684)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		17,293	12,365

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2015

		Six-month period ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>17,293</u>	<u>12,365</u>
OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation		<u>3,122</u>	<u>(2,040)</u>
OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD		<u>3,122</u>	<u>(2,040)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>20,415</u></u>	<u><u>10,325</u></u>
Profit (loss) for the period attributable to:			
Owners of the Company		18,380	13,296
Non-controlling interests		<u>(1,087)</u>	<u>(931)</u>
		<u><u>17,293</u></u>	<u><u>12,365</u></u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		21,310	11,747
Non-controlling interests		<u>(895)</u>	<u>(1,422)</u>
		<u><u>20,415</u></u>	<u><u>10,325</u></u>
EARNINGS PER SHARE	10		
Basic		<u><u>HK1.73 cents</u></u>	<u><u>HK1.23 cents</u></u>
Diluted		<u><u>HK1.70 cents</u></u>	<u><u>HK1.23 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	11	250,220	250,908
Goodwill		4,907	4,907
Prepaid lease payments		6,432	6,506
Other intangible assets		383	433
Prepayments for acquisition of land use rights		44,562	44,366
Interests in joint ventures		68,407	34,282
Deferred tax assets		9,473	10,044
		<u>384,384</u>	<u>351,446</u>
CURRENT ASSETS			
Inventories		61,712	58,713
Bills, trade and other receivables	12	631,562	599,525
Prepaid lease payments		206	205
Time deposits		—	236,240
Pledged bank deposits		193,386	6,880
Bank balances and cash		164,079	110,783
		<u>1,050,945</u>	<u>1,012,346</u>
CURRENT LIABILITIES			
Trade and other payables	13	128,844	128,221
Taxation payable		4,841	6,809
Bank borrowings — current portion		43,962	634
Amount due to the non-controlling shareholder		29,301	—
		<u>206,948</u>	<u>135,664</u>
NET CURRENT ASSETS		<u>843,997</u>	<u>876,682</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,228,381</u>	<u>1,228,128</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		14,129	13,888
		<u>14,129</u>	<u>13,888</u>
CAPITAL AND RESERVES			
Share capital	14	107,900	107,900
Reserves		1,062,654	1,061,747
		<u>1,170,554</u>	<u>1,169,647</u>
Attributable to the owners of the Company		43,698	44,593
Non-controlling interest		<u>43,698</u>	<u>44,593</u>
Total equity		<u>1,214,252</u>	<u>1,214,240</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The Company 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”).

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 2014. The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

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

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

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 January 2017.

⁴ Effective for annual periods beginning on or after 1 January 2016.

3. REVENUE AND 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:

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

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 periods ended 30 June 2015 and 2014 is set out below:

	Six-month period ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Customer A — Sale of road maintenance equipment	23,839	—
Customer B — Provision of road maintenance services	23,064	—
Customer C — Provision of road maintenance services	22,829	—
Customer D — Provision of road maintenance services	—	42,825
Customer E — Provision of road maintenance services	—	19,043
Customer F — Provision of road maintenance services	—	18,628

For the six-month period ended 30 June 2015

	Maintenance services (Unaudited) HK\$'000	Sale of equipment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	143,940	53,827	197,767
Intersegment sales	–	826	826
Other revenue	2,110	–	2,110
	<u>146,050</u>	<u>54,653</u>	<u>200,703</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales	–	(826)	(826)
	<u>146,050</u>	<u>53,827</u>	<u>199,877</u>
Revenue	146,050	53,827	199,877
Allocated corporate expenses	(136,040)	(39,475)	(175,515)
	<u>10,010</u>	<u>14,352</u>	<u>24,362</u>
Segment results			
	<u>10,010</u>	<u>14,352</u>	<u>24,362</u>
<i>Reconciliation:</i>			
Interest income			5,815
Exchange gains			334
Finance costs			(514)
Unallocated corporate expenses			(7,895)
Share of profits and losses of joint ventures			(943)
			<u>21,159</u>
Profit before tax			<u>21,159</u>
Other segment information:			
Impairment losses recognised/(reversed) in the statement of profit or loss	(288)	4,302	4,014
Depreciation and amortisation	14,408	2,066	16,474
Capital expenditure*	14,534	199	14,733

* 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 2014

	Maintenance services (Unaudited) HK\$'000	Sale of 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
	<u>128,100</u>	<u>31,240</u>	<u>159,340</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales	—	—	—
	<u>128,100</u>	<u>31,240</u>	<u>159,340</u>
Revenue	128,100	31,240	159,340
Allocated corporate expenses	(107,929)	(20,757)	(128,686)
	<u>20,171</u>	<u>10,483</u>	<u>30,654</u>
Segment results			
	<u>20,171</u>	<u>10,483</u>	<u>30,654</u>
<i>Reconciliation:</i>			
Interest income			6,732
Exchange losses			(8,374)
Finance costs			(1,670)
Unallocated corporate expenses			(12,438)
Share of profits and losses of joint ventures and associates			<u>(1,855)</u>
Profit before tax			<u>13,049</u>
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.

4. OTHER INCOME

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Government grants (<i>Note</i>)	2,110	1,915
Interest income	5,815	6,732
Others	—	681
	<u>7,925</u>	<u>9,328</u>

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.

5. OTHER GAINS AND LOSSES

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss on disposal of property, plant and equipment	—	(1,001)
Write off of property, plant and equipment	(33)	—
Impairment of trade receivables	(4,692)	(721)
Reversal of impairment of other receivables	678	296
Net foreign exchange gains (losses)	<u>334</u>	<u>(8,374)</u>
	<u>(3,713)</u>	<u>(9,800)</u>

6. FINANCE COSTS

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
— Bank borrowings wholly repayable within five years	<u>514</u>	<u>1,670</u>
Less: amounts capitalised	<u>—</u>	<u>—</u>
	<u>514</u>	<u>1,670</u>

7. PROFIT BEFORE TAXATION

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

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	16,319	10,360
Amortisation of other intangible assets	52	39
Amortisation of land lease payments	103	102
Minimum lease payments under operating leases of land and buildings	3,360	3,470
Loss on disposal of property, plant and equipment	–	1,001
Write off of property, plant and equipment	33	–
Impairment of trade receivables	4,692	721
Reversal of impairment of other receivables	(678)	(296)
Foreign exchange differences, net	(334)	8,374
	<u> </u>	<u> </u>

8. TAXATION

The charge comprises:

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC Enterprise Income Tax ("EIT"):		
— Current tax	4,424	3,321
— Under provision in prior years	270	–
— Over provision in prior years	(1,636)	–
	<u> </u>	<u> </u>
	3,058	3,321
Deferred tax charge (credit)	808	(2,637)
	<u> </u>	<u> </u>
	3,866	684
	<u> </u>	<u> </u>

No provision for Hong Kong profits tax has been made for the periods ended 30 June 2015 and 2014 as the Group did not generate any assessable profits arising in Hong Kong or had available tax losses brought forward from prior years to offset the assessable profits generated during both periods.

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

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

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

Withholding tax of approximately HK\$306,000 (six-month period ended 30 June 2014: HK\$71,000) has been provided for the six-month period ended 30 June 2015 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

The share of tax expense attributable to joint ventures for the six-month period ended 30 June 2015 amounting to HK\$127,000 (six-month period ended 30 June 2014: share of tax credit of HK\$6,000) is included in "Share of profits and losses of joint ventures" in the condensed consolidated statement of profit or loss.

9. DIVIDENDS

At a meeting of the board of directors held on 31 August 2015, the directors resolve not to pay any interim dividend to shareholders (six-month period ended 30 June 2014: Nil).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings for the purposes of calculating basic and diluted earnings per share		
— attributable to the owners of the Company	18,380	13,296

Number of shares

	Six-month period ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue less shares held under share award scheme during the period for the purpose of calculating basic earnings per share	1,065,186,934	1,079,000,000
Effect of dilutive potential ordinary shares:		
Unvested share award	13,813,066	—
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 six-month period ended 30 June 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 period.

For the six-month period ended 30 June 2014, diluted earnings per share were the same as the basic earnings per share as there was no dilutive potential ordinary shares outstanding.

11. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2015, the Group acquired property, plant and equipment of HK\$14,733,000 (six-month period ended 30 June 2014: HK\$17,716,000).

12. BILLS, TRADE AND OTHER RECEIVABLES

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Bills receivables	2,037	887
Trade receivables	623,772	602,906
Less: Allowance for bad and doubtful debts	(60,187)	(55,231)
	563,585	547,675
Other receivables	46,685	33,967
Less: Allowance for bad and doubtful debts	(750)	(1,425)
	45,935	32,542
Prepayments and deposits	19,221	17,718
Tax recoverable	784	703
	631,562	599,525

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
0 to 180 days	2,037	887

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group's trade customers are principally government agencies. The credit period is determined on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Except for the trade receivable of approximately HK\$11,125,000 (31 December 2014: HK\$10,230,000) as at 30 June 2015 which provided a payment guarantee letter to the Group, the Group does not hold any collateral or other credit enhancements over its trade receivables balance. Trade receivables are non-interest-bearing.

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:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within 3 months	178,950	150,869
3 to 12 months	94,611	166,000
1 to 2 years	224,951	159,978
Over 2 years	65,073	70,828
	<u>563,585</u>	<u>547,675</u>

As at 30 June 2015, included in the trade receivables are amounts due from the Group's joint ventures of HK\$32,255,000 (31 December 2014: HK\$67,328,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 30 June 2015, included in the Group's other receivables are amounts due from joint ventures of HK\$106,000 (31 December 2014: HK\$10,247,000), which are unsecured, interest-free and have no fixed terms of repayment.

13. TRADE AND OTHER PAYABLES

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Trade payables	81,196	77,396
Other tax payables	24,482	21,041
Advance from customers, other payables and accrued charges	23,166	29,784
	<u>128,844</u>	<u>128,221</u>

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 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within 3 months	54,559	43,087
3 to 12 months	11,899	22,338
1 to 2 years	7,513	2,425
Over 2 years	7,225	9,546
	<u>81,196</u>	<u>77,396</u>

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

As at 30 June 2015, included in the Group's trade payables is an amount due to joint ventures of approximately HK\$1,846,000 (31 December 2014: HK\$7,255,000), which is repayable within 90 days, which represents similar credit terms to those offered by the joint ventures to its major customers.

At 30 June 2015, included in the Group's advance from customers, other payables and accrued charges is an amount of HK\$11,785,000 (31 December 2014: HK\$12,760,000), which represents the excess of the unrealized profits of sales to joint ventures over the share of their net assets.

14. SHARE CAPITAL

Shares

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Authorised:		
10,000,000,000 (31 December 2014: 10,000,000,000) ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
1,079,000,000 (31 December 2014: 1,079,000,000) ordinary shares of HK\$0.10 each	<u>107,900</u>	<u>107,900</u>

15. COMMITMENTS

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Contracted, but not provided for:		
Land use rights	38,196	38,028
Property, plant and equipment	26,547	30,555
Capital contributions payable to joint ventures	<u>7,792</u>	<u>9,100</u>
	<u>72,535</u>	<u>77,683</u>
Authorised, but not contracted for:		
Property, plant and equipment	<u>6,891</u>	<u>10,815</u>
	<u>79,426</u>	<u>88,498</u>

BUSINESS REVIEW

The board of directors (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 2015 (the “Period”).

During the Period, as the People’s Republic of China (the “PRC”) government actively promoted green economy and continued to strengthen its efforts in environmental restoration, while the Ministry of Transport plans to conduct road inspections on highways in the second half of 2015, the road recycling technology industry maintained a satisfactory momentum and the business of the Group returned on track. The Group continued to be a leading integrated solution provider using Hot-in-Place recycling technology in the asphalt pavement maintenance industry in the PRC. As at 30 June 2015, the Group had a total of ten joint ventures and associates engaging in the provision of Asphalt Pavement Maintenance (“APM”) services and had a total of twelve franchisees to promote the Group’s “Hot-in-Place” recycling technology in certain cities.

During the Period, the Group’s operating revenue was approximately HK\$197.8 million, representing an increase of approximately 26.2%, as against the corresponding period of 2014. Total profit attributable to owners of the Company was approximately HK\$18.4 million, representing an increase of approximately 38.2%, as against the corresponding period of 2014.

APM Services

During the Period, the Group remained as a leading service provider in the PRC market using “Hot-in-Place” recycling technology in the provision of APM services. Driven by the road inspection to be conducted in the second half of 2015, the Group completed 1.5 million square metres of APM services (six-month period ended 30 June 2014: 1.2 million square metres), an increase of 21.7% as against the corresponding period in 2014. The APM services segment recorded revenue of approximately HK\$143.9 million, representing an increase of 14.6% as against the corresponding period of 2014.

APM Equipment

During the Period, as a result of the Group successfully selling the modular series equipment, the APM equipment segment of the Group generated revenue of HK\$53.8 million, representing an increase of 72.9% as against the corresponding period of 2014. As of result, the management considers 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 using “Hot-in-Place” recycling technology in the APM industry, the Group continued 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 2015, it had registered 108 patents (as at 31 December 2014: 97). Besides, it had 6 pending patent applications (as at 31 December 2014: 14).

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

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

Others

With strong research and development capabilities, 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 the recycling technology.

OUTLOOK

In 2015, a report on the government work of the State Council of the PRC reiterated its desire to promote the green economy and support environmental protection. The development of recycling technology has become a mainstream in the road maintenance industry. Furthermore, the National Highway System will commence road inspections in the second half of 2015 and we anticipate that the overall market demand for our services will increase. Under these circumstances, the Group is well positioned to benefit from the government’s policies and the positive development prospects for the environmental protection sector. The Group aims to continuously develop new series equipment, upgrade the “Hot-in-Place” technology, strengthen its market position and expand its market share with its advanced technology and brand influence.

As a “four-in-one” integrated solution provider (APM technology research and development, APM equipment manufacturing, APM service contracting and setting up the “Road Doctor Training Institute” to train high end talent in the road maintenance industry), the Group seeks to innovate on the existing business model. The Group has entered into cooperation agreements with Nanjing Lishui Economy Technology Development Company (南京溧水經濟技術開發總公司) and Jurong City Housing and Urban Rural Development Bureau in the Jiangsu Province (江蘇省句容市住房和城鄉建設局) to actively participate in the major infrastructure and maintenance management work in the subject area, including road maintenance and road expansion and reconstruction projects. Meanwhile, local governments in the PRC are implementing public-private partnership (“PPP”) models in city construction which will be a template for the Group to develop more PPP projects in the field of city road maintenance and reconstruction projects. In addition, the Group has signed strategic cooperation agreements with various provincial highway departments and has gradually implemented those agreements with a view to promoting and developing new APM technologies. Further, the Group has, in cooperation with a well-known institute, started to perform research into energy saving, environmental protection and cyclical economy in road maintenance and construction areas, which will provide education support for the “Road Doctor Training Institute”. On 30 June 2015, the Group has entered into a capital injection agreement to acquire 55% shareholding interest in an expressway road maintenance company located in Tianjin city.

As a leading integrated solution 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 and strengthen its core competitiveness and brand image. The Group aims to continuously strengthen its market position and increase its market share through: (i) investing more resources to maintain our leading role in providing APM services through establishing more sales offices and appointing more salesmen in different cities 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 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 2014.

REVENUE

a. APM Services

	Six-month period ended 30 June		
	2015	2014	Increase/
	Unaudited HK\$'000	Unaudited HK\$'000	(decrease)
Revenue	143,940	125,615	14.6%
Gross profit	46,718	47,060	(0.7%)
Gross profit margin	32.5%	37.5%	
APM area serviced (square metres)	1,463,000	1,202,000	21.7%

Revenue for this segment increased against the corresponding period in 2014 due to total area serviced increased by 21.7%, against the corresponding period in 2014 as more services were performed in highway and expressway projects, before the roads inspection to be conducted in the second half of 2015. During the period, the percentage of APM area serviced consisting of highway and expressway was 58.8% (six-month period ended 30 June 2014: 32.1%).

During the Period, as more than 50% of the APM services projects were conducted on highways and expressways which have lower selling price, decreased in average selling price of APM services projects due to the decrease in selling price of asphalt mixture cost (the major raw materials cost of APM services projects which its selling price will affect the selling price of APM services projects) and the location of APM services projects performed for the Period was more scattered than the corresponding period in 2014 resulted in an increase in transportation and rental expenses, the gross profit margin in this segment decreased from 37.5% in 2014 to 32.5% for the Period.

b. APM Equipment

	Six-month period ended 30 June				Increase/ (decrease)
	2015		2014		
	Unaudited <i>HK\$'000</i>	units/ sets	Unaudited <i>HK\$'000</i>	units/ sets	
Revenue					
Standard series	26,605	19	28,796	16	(7.6%)
Modular series	23,839	1	–	–	100.0%
Repair and maintenance	3,383	N/A	2,333	N/A	45.0%
Total	<u>53,827</u>		<u>31,129</u>		72.9%

	Six-month period ended 30 June				Increase/ (decrease)
	2015		2014		
	Unaudited <i>HK\$'000</i>	Margin	Unaudited <i>HK\$'000</i>	Margin	
Gross profit					
Standard series	12,727	47.8%	16,233	56.4%	(21.6%)
Modular series	15,877	66.6%	–	N/A	100.0%
Repair and maintenance	1,461	43.2%	1,750	75.0%	(16.5%)
Total	<u>30,065</u>	55.9%	<u>17,983</u>	57.8%	67.2%

Revenue for the APM equipment segment for the Period increased by 72.9% as against the corresponding period for 2014. The increase was primarily due to the sale of modular series equipment. The revenue generated from sales of standard series products for the Period was relatively stable.

Gross profit margin for APM equipment was relatively stable.

OTHER GAINS AND LOSSES

Other gains and losses decreased by approximately HK\$6.1 million, or approximately 62.2%, from HK\$9.8 million for the six-month period ended 30 June 2014 to HK\$3.7 million for the Period, primarily due to the net effect of (i) increase in impairment of trade receivables; and (ii) exchange gains were recorded for the Period (six-month period ended 30 June 2014: exchange losses were recorded as a result of devaluation of RMB).

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 8.2% for the Period as against the corresponding period in 2014, primarily due to the increase in staff costs and travelling expenses resulting from the increase in the number of employees in the sales department.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately HK\$7.6 million, or approximately 26.2%, from HK\$29.0 million for the six-month period ended 30 June 2014 to HK\$36.6 million for the Period, primarily due to the consolidation of three new subsidiaries which were acquired by the Group in the second half of 2014 through acquisition of additional interests in two associates and one joint venture of the Group, and increase in staff costs during the Period as a result of the recognition of share-based payment expense for the share options and share awards granted to the employees of the Group in the second half of 2014.

FINANCE COSTS

Finance costs decreased by approximately HK\$1.2 million, or approximately 70.6%, from HK\$1.7 million for the six-month period ended 30 June 2014 to HK\$0.5 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 and new loans were drawn down in June 2015.

SHARE OF LOSSES OF JOINT VENTURES AND ASSOCIATES

The Group's share of losses from joint ventures was approximately HK\$1.1 million for the six-month period ended 30 June 2014 and approximately HK\$0.9 million for the Period.

The Group's share of losses from associates was approximately HK\$0.7 million for the six-month period ended 30 June 2014.

Decreases in share of losses of joint ventures and associates was due to one joint venture and two associates of the Group becoming the Group's subsidiaries and their results being consolidated in the Period.

TAXATION

Taxation increased by approximately HK\$3.2 million, or approximately 457.1%, from approximately HK\$0.7 million for the six-month period ended 30 June 2014 to approximately HK\$3.9 million for the Period, which is in line with the trend in the profit before taxation for the period under review.

PROFIT

Profit attributable to owners of the Company increased by approximately HK\$5.1 million, or approximately 38.2%, from approximately HK\$13.3 million for the six-month period ended 30 June 2014 to approximately HK\$18.4 million for the Period, primarily due to the net effect of a decrease in gross profit margin of APM services segment due to part of the APM services being performed in lower selling price areas, increases in revenue of APM equipment segment due to the sale of the modular series equipment and increases in other costs such as selling and distribution costs, administrative expenses and research and development costs.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2015, the Group's bank balances and cash, time deposits and pledged bank deposits amounted to approximately HK\$357.5 million (as at 31 December 2014: HK\$353.9 million). The balance was relatively stable. As at 30 June 2015, the bank borrowings of the Group amounted to HK\$44.0 million (as at 31 December 2014: HK\$0.6 million) and the Group was in a net cash position (as at 31 December 2014: net cash position).

Tightened cash flow at the local government level in the PRC continued to affect the collection of receivables and the receivables for APM services projects performed and APM equipment products sold during the six-month period ended 30 June 2015 are due to be received in the second half of 2015, as a result the trade receivables balance increased from HK\$602.9 million as of 31 December 2014 to HK\$623.8 million as of 30 June 2015. As at the latest practicable date, third party customers had subsequently settled trade receivables amounting to HK\$65.6 million (equivalent to approximately RMB51.5 million).

As at 30 June 2015, the Group's liquidity position remained strong and the management 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.

INTEREST-BEARING BANK BORROWINGS

As at 30 June 2015, the Group had total debt of HK\$44.0 million, which comprised:

- secured interest-bearing bank borrowings of HK\$43.4 million; and
- unsecured interest-bearing bank borrowings of HK\$0.6 million.

As at 30 June 2015, the secured interest-bearing bank borrowings were secured by pledge of bank balances of approximately HK\$193.4 million.

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Repayable		
Within one year or on demand	43,962	634
In the second year	<u>—</u>	<u>—</u>
	<u>43,962</u>	<u>634</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 2015 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

	Available HK\$ million	Net Proceeds Utilised HK\$ million	Unutilised HK\$ million
Investment in research and development activities	137.4	131.9	5.5
Establishing joint ventures and expanding APM service teams	137.4	64.9	72.5
Manufacturing APM equipment and expanding our APM service teams	103.1	39.9	63.2
Acquisitions of other APM service providers	103.0	16.0	87.0
Constructing new production facility	68.7	57.0	11.7
Establishing sales offices in new markets and marketing expenses	68.7	38.1	30.6
General corporate purposes and working capital requirements	<u>68.7</u>	<u>68.7</u>	<u>—</u>
	<u>687.0</u>	<u>416.5</u>	<u>270.5</u>

The unutilised net proceeds has been deposited into short term deposits in bank accounts maintained by the Group.

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

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 Company Limited (天津高速公路集團有限公司), being the existing shareholder of Tianjin Expressway Maintenance Company Limited (天津市高速公路養護有限公司) (“Tianjin Expressway Maintenance”), entered into a capital injection agreement, pursuant to which Freetech Smart Road has agreed to acquire a 55% equity interest in Tianjin Expressway Maintenance by way of subscribing for an additional registered capital of RMB24,444,400 at the total consideration of RMB46,802,400 (representing RMB24,444,400 as payment for the additional registered capital of Tianjin Expressway Maintenance and RMB22,358,000 as capital reserve of Tianjin Expressway Maintenance). Upon completion on or before 31 August 2015, the registered capital of Tianjin Expressway Maintenance will be RMB44,444,400 and Tianjin Expressway Maintenance will be owned as to 55% and 45% equity interests by Freetech Smart Road and Tianjin Expressway Group Company Limited respectively. For details, please refer to the Company’s announcement dated 2 July 2015.

Save as disclosed above, 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. Except as 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 15 to the interim condensed consolidated unaudited financial information.

As at 30 June 2015, 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 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 exposures to foreign currency risk arises mainly from certain bank deposits and interest-bearing bank borrowings denominated in foreign currency of the relevant group entities. The Group has not hedged its foreign currency risk.

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

EMPLOYEES AND REMUNERATION

As at 30 June 2015, the Group had a total of 542 full time employees (as at 31 December 2014: 550). The Group provides competitive remuneration packages to retain its employees including discretionary bonus schemes, medical insurance and other allowances and benefits in kind as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

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 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 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 27 August 2015, 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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (for the six-month period ended 30 June 2014: Nil).

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 2015 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
Fretech Road Recycling Technology (Holdings) Limited
Sze Wai Pan
Chairman and Chief Executive Officer

Hong Kong, 31 August 2015

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.