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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 2019

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 2019 (the “Period”).

FINANCIAL HIGHLIGHTS

| | Six-month period ended 30 June | | |
|--|-----------------------------------|-------------------------------|-------------------------|
| | 2019 Unaudited HK\$'000 | 2018 Unaudited HK\$'000 | Increase/ (decrease) |
| Revenue | 118,778 | 175,433 | (32.3%) |
| Gross profit | 20,208 | 49,258 | (59.0%) |
| (Loss)/Profit attributable to owners of the Company | (29,774) | 13,416 | (321.9%) |
| (Loss)/Earnings per share (Basic) (HK cents) | (2.80) | 1.26 | (322.2%) |
| Gross profit margin ¹ | 17.0% | 28.1% | |

¹ (gross profit/revenue) x 100%

FINANCIAL RESULTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2019

| | | Six-month period ended | |
|--|--------------|-------------------------------|--------------------|
| | | 30 June | |
| | | 2019 | 2018 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| REVENUE | 3 | 118,778 | 175,433 |
| Cost of sales | | (98,570) | (126,175) |
| Gross profit | | 20,208 | 49,258 |
| Other income | 4 | 2,709 | 2,953 |
| Other gains and losses | 5 | (13,387) | (593) |
| Selling and distribution costs | | (10,282) | (9,813) |
| Administrative expenses | | (33,246) | (35,119) |
| Research and development costs | | (3,463) | (6,653) |
| Other expenses | | (17) | (342) |
| Share of losses of joint ventures | | (3,614) | (30) |
| Changes in fair value of investment property | | – | 22,999 |
| Finance costs | 6 | (3,287) | (4,095) |
| (LOSS)/PROFIT BEFORE TAXATION | 7 | (44,379) | 18,565 |
| Taxation | 8 | 519 | (7,074) |
| (LOSS)/PROFIT FOR THE PERIOD | | (43,860) | 11,491 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

| | | Six-month period ended 30 June | |
|---|------|-----------------------------------|----------------------------|
| | | 2019 | 2018 |
| | | (Unaudited) | (Unaudited) |
| | Note | HK\$'000 | HK\$'000 |
| (LOSS)/PROFIT FOR THE PERIOD | | <u>(43,860)</u> | <u>11,491</u> |
| OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising from translation | | (1,024) | (11,451) |
| Fair value loss on investments in equity instruments at fair value through other comprehensive income | | <u>(299)</u> | <u>(765)</u> |
| OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD | | <u>(1,323)</u> | <u>(12,216)</u> |
| TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD | | <u><u>(45,183)</u></u> | <u><u>(725)</u></u> |
| (Loss)/Profit for the period attributable to: | | | |
| Owners of the Company | | (29,774) | 13,416 |
| Non-controlling interests | | <u>(14,086)</u> | <u>(1,925)</u> |
| | | <u><u>(43,860)</u></u> | <u><u>11,491</u></u> |
| Total comprehensive (expense)/income for the period attributable to: | | | |
| Owners of the Company | | (31,314) | 1,210 |
| Non-controlling interests | | <u>(13,869)</u> | <u>(1,935)</u> |
| | | <u><u>(45,183)</u></u> | <u><u>(725)</u></u> |
| (LOSS)/EARNINGS PER SHARE | 10 | | |
| Basic | | <u><u>HK(2.80) cents</u></u> | <u><u>HK1.26 cents</u></u> |
| Diluted | | <u><u>HK(2.80) cents</u></u> | <u><u>HK1.24 cents</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 159,361 | 174,002 |
| Investment property | 11 | 241,926 | 229,281 |
| Right-of-use assets | | 13,252 | – |
| Goodwill | | 6,150 | 6,150 |
| Prepaid lease payments | | – | 9,900 |
| Other intangible assets | | 280 | 354 |
| Prepayments and deposits for acquisition of land use rights | | 28,227 | 36,762 |
| Interests in joint ventures | | 26,298 | 29,846 |
| Deferred tax assets | | 1,256 | 1,422 |
| Equity instruments at fair value through other comprehensive income | | 6,752 | 6,955 |
| Contract assets | | – | 20,577 |
| Trade receivables — non-current | 12 | 20,525 | – |
| | | 504,027 | 515,249 |
| CURRENT ASSETS | | | |
| Inventories | | 69,522 | 47,496 |
| Bills and trade receivables | 12 | 119,528 | 131,072 |
| Contract assets | | 212,494 | 276,163 |
| Prepayments, deposits and other receivables | 13 | 66,317 | 70,219 |
| Prepaid lease payments | | – | 290 |
| Tax recoverable | | 1,730 | – |
| Time deposits | | 12,981 | 1,976 |
| Pledged bank deposits | | 17,268 | 24,432 |
| Financial assets at fair value through profit or loss | | 13,089 | 11,417 |
| Bank balances and cash | | 107,086 | 154,614 |
| | | 620,015 | 717,679 |
| CURRENT LIABILITIES | | | |
| Bills, trade and other payables | 14 | 282,707 | 346,530 |
| Contract liabilities | | 11,020 | 2,035 |
| Lease liabilities | | 1,887 | – |
| Taxation payable | | – | 6,412 |
| Bank borrowings | | 117,235 | 123,012 |
| | | 412,849 | 477,989 |
| NET CURRENT ASSETS | | 207,166 | 239,690 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 711,193 | 754,939 |

| | | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|---------------------------------------|-------------|--|--|
| | <i>Note</i> | | |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 25,518 | 25,535 |
| Lease liabilities-non-current | | 1,454 | – |
| | | 26,972 | 25,535 |
| | | 684,221 | 729,404 |
| CAPITAL AND RESERVES | | | |
| Share capital | 15 | 107,900 | 107,900 |
| Reserves | | 563,465 | 594,779 |
| Attributable to owners of the Company | | 671,365 | 702,679 |
| Non-controlling interests | | 12,856 | 26,725 |
| Total equity | | 684,221 | 729,404 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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 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

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for investment property and financial instruments which measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six-month period ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|-----------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (“HKFRS 16”)

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC/properties in Hong Kong was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$4,164,000 and right-of-use assets of HK\$14,354,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5%.

| | 1 January 2019 HK\$'000 |
|--|----------------------------|
| Operating lease commitment disclosed as at 31 December 2018 | 5,361 |
| Lease liabilities discounted at relevant incremental borrowing rates | 5,087 |
| Less: Recognition exemption — short-term leases | (923) |
| Lease liabilities as at 1 January 2019 | 4,164 |
| Analysed as | |
| Current | 1,758 |
| Non-current | 2,406 |
| | 4,164 |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | Right-of-use assets HK\$'000 |
|--|------------------------------------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 4,164 |
| Reclassified from prepaid lease payments | 10,190 |
| | <u>14,354</u> |
| By class: | |
| Leasehold land | 10,190 |
| Motor vehicles | 1,316 |
| Building | 2,848 |
| | <u>14,354</u> |

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the prepaid lease payments amounting to HK\$10,190,000 were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000 |
|--------------------------------|---|-------------------------|---|
| Non-current Assets | | | |
| Prepaid lease payments | 9,900 | (9,900) | – |
| Right-of-use assets | – | 14,354 | 14,354 |
| Current Asset | | | |
| Prepaid lease payments | 290 | (290) | – |
| Current Liabilities | | | |
| Lease liabilities | – | (1,758) | (1,758) |
| Non-current Liabilities | | | |
| Lease liabilities | – | (2,406) | (2,406) |
| | <u>10,190</u> | <u>–</u> | <u>10,190</u> |

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 (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except that interest income, exchange differences, share of profits and losses of joint ventures, 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 2019 and 2018 is set out below:

| | Six-month period ended 30 June | |
|---|---------------------------------------|--------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Customer A — Provision of road maintenance services | 47,878 | 39,346 |
| Customer B — Provision of road maintenance services | N/A | 19,098 |
| Customer C — Provision of road maintenance services | N/A | 17,778 |

For the six-month period ended 30 June 2019

| | Maintenance services (Unaudited) HK\$'000 | Sale of equipment (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|--|--|---|---|
| Segment revenue: | | | |
| Sales to external customers | 94,611 | 24,167 | 118,778 |
| Other revenue | 311 | 311 | 622 |
| | <hr/> | <hr/> | <hr/> |
| Revenue | 94,922 | 24,478 | 119,400 |
| Allocated corporate expenses | (130,296) | (21,733) | (152,029) |
| | <hr/> | <hr/> | <hr/> |
| Segment results | (35,374) | 2,745 | (32,629) |
| | <hr/> | <hr/> | <hr/> |
| <i>Reconciliation:</i> | | | |
| Interest income | | | 2,087 |
| Finance costs | | | (3,287) |
| Unallocated corporate expenses | | | (6,936) |
| Share of profits and losses of joint ventures | | | (3,614) |
| | | | <hr/> |
| Loss before tax | | | (44,379) |
| | | | <hr/> |
| Other segment information: | | | |
| Expected credit loss (reversed)/recognised in the statement of profit or loss | 18,440 | (5,096) | 13,344 |
| Depreciation and amortisation | 15,717 | 1,516 | 17,233 |
| Capital expenditure* | 13,928 | 46 | 13,974 |

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

For the six-month period ended 30 June 2018

| | Maintenance services (Unaudited) HK\$'000 | Sale of equipment (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|--|--|---|----------------------------------|
| Segment revenue: | | | |
| Sales to external customers | 149,230 | 26,203 | 175,433 |
| Intersegment sales | – | 6,380 | 6,380 |
| Other revenue | 213 | 484 | 697 |
| | <u>149,443</u> | <u>33,067</u> | <u>182,510</u> |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment sales | <u>–</u> | <u>(6,380)</u> | <u>(6,380)</u> |
| Revenue | 149,443 | 26,687 | 176,130 |
| Allocated corporate expenses | <u>(119,235)</u> | <u>(52,870)</u> | <u>(172,105)</u> |
| Segment results | <u>30,208</u> | <u>(26,183)</u> | <u>4,025</u> |
| <i>Reconciliation:</i> | | | |
| Interest income | | | 2,256 |
| Exchange losses | | | (200) |
| Finance costs | | | (4,095) |
| Unallocated corporate expenses | | | (6,390) |
| Share of profits and losses of joint ventures | | | (30) |
| Changes in fair value of investment property | | | <u>22,999</u> |
| Profit before tax | | | <u><u>18,565</u></u> |
| Other segment information: | | | |
| Expected credit loss (reversed)/recognised in the statement of profit or loss | (21,631) | 22,689 | 1,058 |
| Depreciation and amortisation | 15,211 | 1,256 | 16,467 |
| Capital expenditure* | 15,768 | 829 | 16,597 |

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

4. OTHER INCOME

| | Six-month period ended 30 June | |
|-----------------------------------|--------------------------------|--------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Government grants (<i>Note</i>) | 615 | 198 |
| Interest income | 2,087 | 2,256 |
| Others | 7 | 499 |
| | <u>2,709</u> | <u>2,953</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 | |
|---|--------------------------------|--------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Write off of property, plant and equipment | (31) | (23) |
| Expected credit loss of trade receivables reversed/(recognised) | 5,053 | (1,058) |
| Expected credit loss of other receivable recognised | (18,397) | — |
| Net foreign exchange losses | — | (200) |
| Dividend income from equity instrument | — | 688 |
| Donation | (12) | — |
| | <u>(13,387)</u> | <u>(593)</u> |

6. FINANCE COSTS

| | Six-month period ended 30 June | |
|--|--------------------------------|--------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest on: | | |
| — Bank borrowings wholly repayable within five years | 3,193 | 4,095 |
| Interest on lease liabilities | 94 | — |
| | <u>3,287</u> | <u>4,095</u> |

7. (LOSS)/PROFIT BEFORE TAXATION

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

| | Six-month period ended 30 June | |
|---|---------------------------------------|--------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 16,060 | 16,225 |
| Depreciation of right-of-use assets | 1,098 | – |
| Amortisation of other intangible assets | 75 | 85 |
| Amortisation of prepaid lease payments | – | 157 |
| Minimum lease payments under operating leases of land and buildings | 1,510 | 2,687 |
| Write off of property, plant and equipment | 31 | 23 |
| Expected credit loss of trade receivables (reversed)/recognised | (5,053) | 1,058 |
| Expected credit loss of other receivables recognised | 18,397 | – |
| Foreign exchange differences, net | – | 200 |
| | – | 200 |

8. TAXATION

The charge comprises:

| | Six-month period ended 30 June | |
|------------------------------------|---------------------------------------|--------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| PRC Enterprise Income Tax ("EIT"): | | |
| — Current tax | 997 | 31 |
| — Under provision in prior years | – | 1,080 |
| — Over provision in prior years | (1,683) | (12) |
| | (686) | 1,099 |
| Deferred tax charge | 167 | 5,975 |
| | (519) | 7,074 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements since there is no tax assessable profit for the six-month periods ended 30 June 2018 and 2019.

Except as described below, provision for PRC EIT 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, 2014 and 2017 respectively and the applicable tax rate is 15% from 1 January 2010 to 31 October 2020.

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, 2012, 2015 and 2018 respectively and the applicable tax rate is 15% from 1 January 2009 to 3 November 2021.

Withholding tax of approximately HK\$48,000 was provided for the six-month period ended 30 June 2018 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

9. DIVIDENDS

At a meeting of the board of directors held on 30 August 2019, the directors resolve not to pay any interim dividend to shareholders (six-month period ended 30 June 2018: Nil).

10. (LOSS)/EARNINGS PER SHARE

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

(Loss)/Earnings

| | Six-month period ended 30 June | |
|---|---------------------------------------|--------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| (Loss)/Earnings for the purposes of calculating basic and diluted (loss)/earnings per share | | |
| — attributable to the owners of the Company | (29,774) | 13,416 |

Number of shares

| | Six-month period ended 30 June | |
|--|---------------------------------------|----------------------|
| | 2019 | 2018 |
| | (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 (loss)/earnings per share | 1,061,630,000 | 1,061,630,000 |
| Effect of dilutive potential ordinary shares: | | |
| Unvested share award | — | 17,370,000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share | 1,061,630,000 | 1,079,000,000 |

The computation of diluted loss per share for the six month period ended 30 June 2019 did not assume the exercise of the Company’s outstanding share options and the share award as that would decrease the loss per share for the period presented.

The computation of diluted earnings per share for the six-month period ended 30 June 2018 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.

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six-month period ended 30 June 2019, the Group acquired property, plant and equipment, and investment property of HK\$1,142,000 and HK\$12,832,000, respectively (six-month period ended 30 June 2018: HK\$16,504,000 and HK\$93,000).

The fair value of the Group's investment property was arrived at on the basis of a valuation carried out at the end of the reporting period by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. (北京華亞正信資產評估有限公司), who is a firm of independent valuer qualifications, on market value basis. There is no changes in fair value of investment property for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: HK\$22,999,000).

12. BILLS AND TRADE RECEIVABLES

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|--|--|--|
| Trade receivables | 136,619 | 127,598 |
| Portion classified as non-current assets | (20,525) | – |
| Current portion | 116,094 | 127,598 |
| Bills receivables | 3,434 | 3,474 |
| | 119,528 | 131,072 |

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

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|---------------|--|--|
| 0 to 180 days | 3,434 | 3,474 |

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

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

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 3 months | 22,947 | 27,811 |
| 3 to 12 months | 25,153 | 37,373 |
| 1 to 2 years | 41,327 | 36,108 |
| Over 2 years | 47,192 | 26,306 |
| | <u>136,619</u> | <u>127,598</u> |

As at 30 June 2019, included in the trade receivables are amounts due from the Group's related companies of HK\$16,127,000 (31 December 2018: HK\$20,025,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|--------------------------|--|--|
| Other receivables | 32,417 | 22,995 |
| Prepayments and deposits | 29,846 | 42,821 |
| Tax recoverable | 4,054 | 4,403 |
| | <u>66,317</u> | <u>70,219</u> |

At 30 June 2019, included in the Group's prepayments, deposits and other receivables are amounts due from related companies of HK\$2,390,000 (31 December 2018: HK\$920,000), which are unsecured, interest-free and have no fixed terms of repayment.

14. BILLS, TRADE AND OTHER PAYABLES

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|--|--|--|
| Bills payable | 26,964 | 8,201 |
| Trade payables | 199,618 | 275,274 |
| Other tax payables | 17,490 | 19,898 |
| Advance from customers, other payables and accrued charges | 38,635 | 43,157 |
| | <u>282,707</u> | <u>346,530</u> |

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

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|---------------|--|--|
| 0 to 180 days | <u>26,964</u> | <u>8,201</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 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|-----------------|--|--|
| Within 3 months | 59,876 | 194,568 |
| 3 to 12 months | 99,430 | 23,297 |
| 1 to 2 years | 19,858 | 33,586 |
| Over 2 years | <u>20,454</u> | <u>23,823</u> |
| | <u>199,618</u> | <u>275,274</u> |

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

As at 30 June 2019, included in the Group's trade payables are amounts due to related companies of approximately HK\$1,970,000 (31 December 2018: HK\$2,541,000), which are repayable within 90 days, which represents credit terms similar to those offered by the related companies to their major customers.

As at 31 December 2018, included in the Group's advance from customers, other payables and accrued charges is an amount due to a related party of approximately HK\$770,000 which is unsecured, interest-free and have no fixed terms of repayment.

As at 30 June 2019, included in the Group's advance from customers, other payables and accrued charges is an amount due to a non-controlling shareholder of approximately HK\$26,690,000 (31 December 2018: HK\$26,690,000) which is unsecured, interest-free and have no fixed terms of repayment.

15. SHARE CAPITAL

Shares

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|---|--|--|
| Authorised: | | |
| 10,000,000,000 (31 December 2018: 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 2018: 1,079,000,000) ordinary shares of HK\$0.10 each | <u>107,900</u> | <u>107,900</u> |

16. COMMITMENTS

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

| | 30 June 2019 (Unaudited) HK\$'000 | 31 December 2018 (Audited) HK\$'000 |
|--|--|--|
| Contracted, but not provided for: | | |
| Land use rights | 33,084 | 33,108 |
| Property, plant and equipment | 20,506 | 9,479 |
| Capital contribution payable to an equity instrument at fair value through other comprehensive income | <u>315</u> | <u>315</u> |
| | <u>53,905</u> | <u>42,902</u> |
| Authorised, but not contracted for: | | |
| Property, plant and equipment | <u>1,057</u> | <u>1,057</u> |
| | <u>54,962</u> | <u>43,959</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 2019 (the “Period”).

The year of 2019 is the 70th anniversary of the founding of new China. With strong determination, it is also a crucial year for the People’s Republic of China (“PRC”) government to continue implementing the requirements put forth at the National Conference on Ecological and Environmental Protection in order to prevent and treat pollution. However, due to the tightened cash flow of some of the PRC local governments and in order to reduce the operational cash flow risk of the Group, the Group has delayed some of the road maintenance projects until the customers’ funds for these projects are officially in place, the asphalt pavement maintenance (“APM”) services sector recorded a decrease in revenue. During the Period, the Group’s plan to develop APM equipment market in the United States has been severely hindered by the escalation of the trade war between the PRC and the United States. The Group continued its effort to develop its overseas APM equipment market in the countries along the “One Belt One Road” and four Asian tigers.

During the Period, the Group’s operating revenue was approximately HK\$118.8 million, representing a decrease of approximately 32.3%, as against the corresponding period of 2018. Total loss attributable to owners of the Company was approximately HK\$29.8 million, representing a decrease of approximately 321.9%, as compared to the total profit attributable to owners of the Company of approximately HK\$13.4 million for the six-month period ended 30 June 2018.

APM Services

During the Period, due to the tightened cash flow of some of the PRC local governments and in order to reduce the operational cash flow risk of the Group, the Group has delayed some of the road maintenance projects until the customers’ funds for these projects are officially in place. The total serviced area of “Hot-in-Place” projects of the Group was decreased from 1.6 million square meters during the six-month period ended 30 June 2018 to 0.8 million square meters during the Period, representing a decrease of approximately 50%.

In addition, the revenue of non-“Hot-in-Place” projects contributed by Tianjin Expressway Maintenance Company Limited (天津市高速公路養護有限公司) (“Tianjin Expressway Maintenance”), a non-wholly owned subsidiary of the Group, was decreased by 13.3% as against the corresponding period of 2018. The APM services segment recorded revenue of approximately HK\$94.6 million, representing a decrease of 36.6% as against the corresponding period of 2018. Despite the decrease in the total serviced area of “Hot-in-Place” projects, the Group has continued to be a leading integrated solution provider using “Hot-in-Place” recycling technology in the APM industry in the PRC.

APM Equipment

The APM equipment segment of the Group recorded revenue of HK\$24.2 million, representing decrease of 7.8% as against the corresponding period of 2018, which was primarily due to the decrease in the number of the standard series equipment sold.

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

During the Period, despite the decrease in the Group’s operating revenue, the Group continued to invest resources in research and development. As at 30 June 2019, it had registered 161 patents (as at 31 December 2018: 148), of which 18 were invention patents (as at 31 December 2018: 17), 120 were utility model patents (as at 31 December 2018: 113) and 23 were design patents (as at 31 December 2018: 18). Besides, it had 15 pending patent applications (as at 31 December 2018: 18), of which 8 invention patents and 7 utility model patents (as at 31 December 2018: 7 invention patents, 9 utility model patents and 2 design patents). As at 30 June 2019, the Group’s patents including 36 expired patents (as at 31 December 2018: 18), of which 1 was invention patent, 25 were utility model patents and 10 were design patents (as at 31 December 2018: 13 utility model patents and 5 design patents).

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. The Group does not only keep improving its current products like pavement maintenance and safety attenuator vehicles, the Group also diversified its product range in road industry. During the Period, high performance vacuum sweepers and snow removal vehicles were developed and targeted to high-end customers like airports, highways which are not satisfied with traditional domestic equipment. The Group embedded automated and smart functions in its products in order to reduce cost and provide higher quality services.

Geopolymer Injection Road Base Repair technology provide a fast, durable with minimum invasion of pavement method to repair road base. Together with the Group’s designed equipment integrates drilling, mixing and injection functions, a new and independent business line is developed. It is also expected to expand the opportunities of the Group’s “Hot-in Place” technology application for the roads with base problems.

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 maintain its competitive edges and leading status in the APM industry by using the recycling technology.

OUTLOOK

Global uncertainties and instability continue to escalate in 2019. Despite the difficult and complex domestic and external environment, China's determination and persistence for progressing ecological civilisation construction, strengthening ecological protection as well as preventing and controlling environmental pollution stay unaltered. With our patent "Hot-in-Place" recycling technology and other new products, the Group remains optimistic in the overall road maintenance market that it operates in.

First, as at 31 December 2018, China has the longest expressway and the second longest highway (in terms of mileage) in the world. The overall growth of the APM industry in the PRC remains sustainable and the existing penetration rate of recycling technology (including the Group's "Hot-in-Place" recycling technology) is still minimal and has significant potential for expansion. In addition, the Ministry of Transport will perform road inspections on highways in the second half of 2020 to inspect the quality and condition of the road maintenance work. Therefore, it offers us the largest road maintenance market and huge room to grow. Secondly, subsequent to the Company's sale of a modular series equipment to a customer in the Republic of Korea and standard series equipment to customers in Macau, Malaysia and Taiwan, the Company will continue to explore the overseas business opportunities and strategic cooperation with other companies, such as some listed companies and large-scale or state-owned enterprises. Third, the Group will continue to leverage on its state-owned partners' overseas channels to explore overseas business opportunities. The Group is making an effort to promote its overseas business opportunities in the countries along the "One Belt One Road" and four Asian tigers. In light of these, the Group is well positioned to benefit from the government's policies and the positive development prospects in the environmental protection sector.

As a leading provider of the "Hot-in-Place" recycling technology in the APM sector and a provider of one-stop solution covering "testing, planning, equipment and construction", the Group will leverage on its competitive advantages and implement favourable policies to achieve a healthy growth in its business. The Group plans to enhance its market position, enter into new markets and enlarge its share in existing markets by the following means: first, it will increase market penetration, particularly in cities where the use of "Hot-in-Place" recycling technology is currently relatively limited; secondly, it will increase its investment on its testing and planning department by devoting more equipment and staff so as to enhance its one-stop solution; thirdly, it will focus on the cities which will hold major events to gain and complete projects of high awareness; fourthly, it will grasp the opportunities in the wave of state-owned enterprise reforms to acquire more maintenance companies in the express highway sector; fifthly, it will appoint more local APM service providers as its franchisees; sixthly, it will further optimize its techniques and technologies to lower the construction costs; seventhly, it will leverage on its state-owned partners' overseas channels to expand the international APM equipment and services market.

In addition, the Group has started planning the development of the investment property acquired by the Group in December 2016. The investment property will be developed into the global technology research and development centre of the Group. The investment property will not only enable the Group to enhance its research and development capabilities, but also has good potential as a long term investment.

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

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 2018.

REVENUE

a. APM Services

| | Six-month period ended 30 June | | | | |
|-----------------------------|--------------------------------|--|-----------------------|--|-------------------------|
| | 2019 | | 2018 | | Increase/ (decrease) |
| | Unaudited HK\$'000 | Area serviced (square meters'000) | Unaudited HK\$'000 | Area serviced (square meters'000) | |
| Revenue (net of VAT) | | | | | |
| “Hot-in-Place” Projects | 51,153 | 786 | 99,123 | 1,629 | (48.4%) |
| Non-“Hot-in-Place” Projects | 43,458 | – | 50,107 | – | (13.3%) |
| Total | 94,611 | | 149,230 | | (36.6%) |

| | Six-month period ended 30 June | | | | |
|-----------------------------|--------------------------------|-------------|-----------------------|--------------|-------------------------|
| | 2019 | | 2018 | | Increase/ (decrease) |
| | Unaudited HK\$'000 | Margin | Unaudited HK\$'000 | Margin | |
| Gross profit | | | | | |
| “Hot-in-Place” Projects | 4,566 | 8.9% | 32,787 | 33.1% | (86.1%) |
| Non-“Hot-in-Place” Projects | 3,787 | 8.7% | 5,953 | 11.9% | (36.4%) |
| Total | 8,353 | 8.8% | 38,740 | 26.0% | (78.4%) |

Revenue for this segment decreased significantly compared with that of the corresponding period in 2018 due to the tightened cash flow of some of the PRC local governments and in order to reduce the operational cash flow risk of the Group, the Group has delayed some of the road maintenance projects until the customers' funds for these projects are officially in place. The total serviced area of “Hot-in-Place” projects was decreased by approximately 50% from 1.6 million square meters during the six-month period ended 30 June 2018 to 0.8 million square meters during the Period.

During the Period, the revenue of non-“Hot-in-Place” projects of approximately HK\$43.5 million was contributed by Tianjin Expressway Maintenance and was involved in traditional APM method which the Group will gradually migrate the project of Tianjin Expressway Maintenance from traditional APM method into the Group’s “Hot-in-Place” recycling technology in order to strengthen its profitability.

The gross profit margin of “Hot-in-Place” Projects decreased significantly from 33.1% for the six-month period ended 30 June 2018 to 8.9% during the Period. The decrease in gross profit margin is mainly due to the significant decreased in the revenue of “Hot-in-Place” Projects, because the Group will continue to incur fixed cost of sales of this sector despite decrease in revenue.

b. APM Equipment

| | Six-month period ended 30 June | | | | |
|-----------------------------|--------------------------------|----------------|-----------------------|----------------|-------------------------|
| | 2019 | | 2018 | | |
| | Unaudited HK\$'000 | units/ sets | Unaudited HK\$'000 | units/ sets | Increase/ (decrease) |
| Revenue (net of VAT) | | | | | |
| Standard series | 20,672 | 17 | 24,587 | 20 | (15.9%) |
| Modular series | – | – | – | – | – |
| Repair and maintenance | 3,495 | – | 1,616 | N/A | 116.3% |
| Total | <u>24,167</u> | | <u>26,203</u> | | (7.8%) |

| | Six-month period ended 30 June | | | | |
|------------------------|--------------------------------|--------|-----------------------|--------|-------------------------|
| | 2019 | | 2018 | | |
| | Unaudited HK\$'000 | Margin | Unaudited HK\$'000 | Margin | Increase/ (decrease) |
| Gross profit | | | | | |
| Standard series | 9,947 | 48.1% | 9,613 | 39.1% | 3.5% |
| Modular series | – | N/A | – | N/A | – |
| Repair and maintenance | 1,908 | 54.6% | 905 | 56.0% | 110.8% |
| Total | <u>11,855</u> | 49.1% | <u>10,518</u> | 40.1% | 12.7% |

Revenue for the APM equipment segment for the Period was decreased by 7.8% as against the corresponding period for 2018 was primarily due to the decrease in the number of the Truck Mounted Attenuator equipment sold.

The increase in the gross profit margin for APM equipment from 40.1% in 2018 to 49.1% for the Period was due to the sale of higher gross profit margin of standard series.

OTHER GAINS AND LOSSES

Other gains and losses were increased by approximately HK\$12.8 million from HK\$0.6 million for the six-month period ended 30 June 2018 to HK\$13.4 million for the Period, primarily due to the net effect of expected credit loss of trade receivables reversed and the recognition of expected credit loss of other receivables.

SELLING AND DISTRIBUTION COSTS

The increase in the selling and distribution costs by HK\$0.5 million from HK\$9.8 million for the six-month period ended 30 June 2018 to HK\$10.3 million for the Period was mainly due to more APM services demonstration works were conducted and more APM technical conference were participated by the Group to promote our technology.

ADMINISTRATIVE EXPENSES

Administrative expenses were decreased by approximately HK\$1.9 million, or approximately 5.4%, from HK\$35.1 million for the six-month period ended 30 June 2018 to HK\$33.2 million for the Period, primarily due to the decrease in the office and staff quarter rental expenses and travelling expenses for the period as cost control had been implemented.

FINANCE COSTS

Finance costs were decreased by approximately HK\$0.8 million, or approximately 19.5%, from HK\$4.1 million for the six-month period ended 30 June 2018 to HK\$3.3 million for the Period, primarily due to decrease in bank borrowing amount.

SHARE OF LOSSES OF JOINT VENTURES

The Group's share of losses from the joint ventures was approximately HK\$3.6 million for the Period, increased by approximately HK\$3.6 million, as against the corresponding period of 2018 primarily due to the tightened cash flow of some of the PRC local governments also affected the APM service projects of these joint ventures.

CHANGES IN FAIR VALUE OF INVESTMENT PROPERTY

The Group's investment property is revalued as at 30 June 2019 on an open market basis by an independent property valuer. As at 30 June 2019, the investment property valuation amount is relatively stable and the Group did not record changes in fair value of investment property.

TAXATION

Taxation was decreased by approximately HK\$7.6 million, or approximately 107.0%, from approximately HK\$7.1 million for the six-month period ended 30 June 2018 to reversal of taxation of approximately HK\$0.5 million for the Period, which is mainly due to the net effect of: (1) nil deferred tax expense recognised due to nil changes in fair value of investment property during the Period; (2) overprovision of taxation in the year ended 31 December 2018; and (3) in line with loss before taxation during the Period.

LOSS

Loss attributable to owners of the Company amounted to HK\$29.8 million for the Period compared with profit attributable to owners of the Company of approximately HK\$13.4 million for the six-month period ended 30 June 2018, primarily due to the net effect of (i) the significant decrease in revenue of APM services segment; (ii) the decrease in administrative expenses; and (iii) the recognition of expected credit loss of other receivables.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, the Group's bank balances and cash, time deposits, pledged bank deposits and financial assets at fair value through profit or loss amounted to approximately HK\$150.4 million (as at 31 December 2018: HK\$192.4 million). The decrease was primarily due to the net effect of net cash used in the operating activities and the repayment of bank borrowings. As at 30 June 2019, the bank borrowings of the Group amounted to HK\$117.2 million (as at 31 December 2018: HK\$123.0 million). As at 30 June 2019 and 31 December 2018, the Group was in a net cash position.

Due to the effect of the gross carrying amount of trade receivables and contract assets balance as at 31 December 2018 which were due to receive during the Period and decrease in the APM services projects performed during the Period, these balances was decreased by HK\$73.7 million, or approximately 8.7%, from HK\$850.4 million as of 31 December 2018 to HK\$776.7 million as of 30 June 2019. The contract assets balance also includes some retention money withheld by the customers (5% to 10% of the contract price which is to be paid after the expiration of the warranty period) which was not yet past due. As at the latest practicable date, customers had subsequently settled trade receivables amounting to HK\$61.4 million (equivalent to approximately RMB53.9 million).

As at 30 June 2019, the Group's liquidity position remained stable and 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 2019, the Group had total debt of HK\$117.2 million (as at 31 December 2018: HK\$123.0 million), which was unsecured interest-bearing bank borrowings.

As at 30 June 2019, bank balances of approximately HK\$17.3 million (as at 31 December 2018: HK\$24.4 million) was pledged to secure general banking facilities granted to the Group.

The maturity profile of the interest-bearing bank borrowing as at 31 December 2018 and 30 June 2019 were repayable within one year or on demand.

USE OF PROCEEDS RAISED FROM INITIAL PUBLIC OFFERING (“IPO”)

The Group received approximately net proceeds of HK\$687.0 million, 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 2019 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

| | Net Proceeds | | |
|--|---------------------|---------------------|---------------------|
| | Available | Utilised | Unutilised |
| | <i>HK\$ million</i> | <i>HK\$ million</i> | <i>HK\$ million</i> |
| Investment in research and development activities | 137.4 | 137.4 | – |
| Establishing joint ventures and expanding APM service teams | 137.4 | 98.6 | 38.8 |
| Manufacturing APM equipment and expanding our APM service teams | 103.1 | 103.1 | – |
| Acquisitions of other APM service providers | 103.0 | 53.6 | 49.4 |
| Constructing new production facility | 68.7 | 68.7 | – |
| Establishing sales offices in new markets and marketing expenses | 68.7 | 68.7 | – |
| General corporate purposes and working capital requirements | 68.7 | 68.7 | – |
| | <u>687.0</u> | <u>598.8</u> | <u>88.2</u> |

The unutilised net proceeds have 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

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. 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 16 to these interim condensed unaudited financial information.

As at 30 June 2019, 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. As at 30 June 2019, 18.5% and 81.5% (as at 31 December 2018: 18.5% and 81.5%) of the Group's bank borrowings are at fixed interest rate and floating interest rate, respectively. The Group has not used any interest rate swaps to hedge its interest rate risk.

The Group collects most of its revenue in RMB and most of its expenditures as well as capital expenditures are also denominated in RMB. The Group's 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. As at 30 June 2019, certain time deposit, bank balances and cash, pledged bank deposits and financial assets at fair value through profit or loss of approximately HK\$142,480,000 (as at 31 December 2018: HK\$178,237,000) are denominated in RMB, the remaining balances are mainly denominated in Hong Kong dollars. As at 30 June 2019, the Group's bank borrowings denominated in RMB amounted to HK\$117,235,000 (equivalent to RMB103,000,000) (as at 31 December 2018: HK\$123,012,000 (equivalent to RMB108,000,000)). The Group has not hedged its foreign currency risk. The changes in foreign currency translation reserve during the Period was the result of the depreciation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars.

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

EMPLOYEES AND REMUNERATION

As at 30 June 2019, the Group had a total of 570 full time employees (as at 31 December 2018: 572). 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 a high standard 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except code provision A.2.1 as more particularly described below.

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 Wai Pan (“Mr. Sze”) to assume both roles as the chairman and chief executive officer of the Company since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group’s continual growth and development. When the Group has developed to a more sizeable organisation, the Board will consider separating the two roles to be assumed by two individuals. With the strong business experience of directors of the Company, the Group does not expect any issues would arise due to the combined roles 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 Dr. Lau Ching Kwong (including one independent non-executive director with the appropriate professional qualifications).

At an audit committee meeting held on 30 August 2019, the audit committee, along with the management of the Company, reviewed the accounting principles and practices adopted by the Group and other 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 for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

A specific enquiry has been made to 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 for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company (the “Employees Written Guidelines”).

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

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 2018: 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 2019 will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

We wish to express our sincere gratitude to our management and staff members for their dedication and hard work during the Period. We would like to extend our thanks to all our business partners, customers and shareholders for their support. We 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, 30 August 2019

As at the date of this announcement, the executive Directors are Mr. Sze Wai Pan, Ms. Sze Wan Nga and Mr. Chan Kai King; the non-executive Directors are Pr. Tong Wai Cheung Timothy, Dr. Chan Yan Chong and Mr. Wang Lei; and the independent non-executive Directors are Ms. Yeung Sum, Mr. Tang Koon Yiu Thomas and Dr. Lau Ching Kwong.