HUAYU EXPRESSWAY GROUP LIMITED
華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1823)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of Huayu Expressway Group Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012, together with comparative figures for the preceding year ended 31 December 2011, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Note	**2012** *HK$'000*	2011 *HK$'000*
Turnover	*4*	**138,908**	1,124,650
Cost of sales		**(78,404)**	(1,099,807)
Gross profit		**60,504**	24,843
Other revenue	*5*	**403**	342
Other net loss	*5*	**(1,321)**	(374)
Administrative expenses		**(31,173)**	(31,239)
Impairment loss of intangible asset		**(303,345)**	(275,464)
Loss from operations		**(274,932)**	(281,892)
Finance costs		**(94,488)**	(320)
Loss before taxation	*6*	**(369,420)**	(282,212)
Income tax	*7*	**83,202**	64,388
Loss for the year		**(286,218)**	(217,824)
Attributable to:			
Equity shareholders of the Company		**(258,726)**	(197,800)
Non-controlling interests		**(27,492)**	(20,024)
Loss for the year		**(286,218)**	(217,824)
Loss per share (HK cents)			
Basic and diluted	*9*	**(62.71)**	(47.94)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Loss for the year	**(286,218)**	(217,824)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong, net of nil tax	**(231)**	31,526
Total comprehensive income for the year	**(286,449)**	(186,298)
Attributable to:		
Equity shareholders of the Company	**(258,934)**	(169,397)
Non-controlling interests	**(27,515)**	(16,901)
Total comprehensive income for the year	**(286,449)**	(186,298)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**28,765**	2,367
Intangible asset – service concession arrangement		**1,680,888**	1,936,165
Deferred tax assets		**149,556**	66,341
		1,859,209	2,004,873
Current assets			
Prepayments and other receivables	*10*	**11,896**	13,226
Cash at bank and on hand		**21,809**	168,223
		33,705	181,449
Current liabilities			
Derivative financial instrument		**1,966**	335
Accruals and other payables	*11*	**259,657**	420,755
Amount due to related companies		**2,306**	1,300
Bank loans		**601,578**	584,712
		865,507	1,007,102
Net current liabilities		**(831,802)**	(825,653)
Total assets less current liabilities		**1,027,407**	1,179,220
Non-current liabilities			
Bank loans		**735,047**	629,085
Amount due to the controlling shareholder of the Company		**66,357**	37,683
		801,404	666,768
NET ASSETS		**226,003**	512,452
CAPITAL AND RESERVES			
Share capital		**4,126**	4,126
Reserves		**195,891**	454,825
Total equity attributable to equity shareholders of the Company		**200,017**	458,951
Non-controlling interests		**25,986**	53,501
TOTAL EQUITY		**226,003**	512,452

NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

Huayu Expressway Group Limited ("the Company") was incorporated in the Cayman Islands on 21 April 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together "the Group") are principally engaged in the construction, operation and management of an expressway in the People's Republic of China ("PRC").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of Preparation

The consolidated financial statements for the year ended 31 December 2012 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

At 31 December 2012, the Group's net current liabilities were HK$831,802,000. The directors have made an assessment and concluded that the Group is able to continue as a going concern for at least twelve months and to meet its obligations, as and when they fall due, having regard to the following:

i the Group expects to generate positive operating cash flows for the year ending 31 December 2013;

ii the Group has secured a contractual right to draw down from a long-term secured bank loan facility of HK$598,594,000 to repay the bank loan of HK$589,245,000 when it falls due in 2013 or should it be recalled on demand by the bank. Based on the cash flow forecast, the Group expects to meet the remaining scheduled repayment obligations in 2013. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered.

iii at 31 December 2012, the Group's construction payables include contract retention deposits of HK$74,945,000. Subsequent to 31 December 2012, the Group has entered into agreements with certain contractors to extend the payment dates of a total amount of HK$74,945,000 to 2014;

iv advance receipt of HK$112,230,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;

v subsequent to 31 December 2012, the controlling shareholder of the Company has advanced RMB15,000,000 (equivalent to HK$18,750,000) to the Group and has undertaken that repayment will not be requested until the Group is in a position to meet all repayment obligations; and

vi the Group is in the process of applying to obtain additional long term bank loan facilities to cover the additional construction cost incurred.

Consequently, the financial statements have been prepared on a going concern basis.

(c) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocation resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, the construction, operation and management of an expressway in the PRC. Accordingly, no segmental analysis is presented.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of the developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. TURNOVER

The principal activities of the Group are construction, operation and management of an expressway in the PRC.

Turnover during the year represented revenue from construction work, project management services, operation of the expressway under the service concession arrangement and leasing of service zone. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Construction revenue in respect of service concession arrangements	**32,966**	1,123,981
Toll income	**89,694**	669
Rental income	**16,248**	–
	138,908	1,124,650

5. OTHER REVENUE AND NET LOSS

	2012	2011
	HK$'000	*HK$'000*
Other revenue		
Billboard rental income	**311**	–
Interest income from bank deposits	**92**	342
	403	342
Other net loss		
Exchange (gain)/loss	**(37)**	39
Change in fair value of a derivative financial instrument	**1,631**	335
Others	**(273)**	–
	1,321	374

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	**55,777**	9,034
Interest on bank loans repayable beyond five years	**38,711**	29,878
Total interest expense on bank loans	**94,488**	38,912
Less: Interest expense capitalised into intangible asset*	**–**	(38,592)
	94,488	320

* *There is no borrowing costs capitalised for the year ended 31 December 2012 (2011: borrowing costs had been capitalised at a rate of 5.760 – 6.685% per annum).*

	2012	2011
	HK$'000	*HK$'000*
(b) Staff costs:		
Salaries, wages and other benefits	**18,378**	15,025
Contributions to defined contribution retirement plans	**2,408**	564
	20,786	15,589

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme ("the Scheme") organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme at a fixed rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the schemes referred to above beyond the annual contributions described above.

	2012	2011
	HK$'000	*HK$'000*
(c) Other items:		
Auditors' remuneration		
– Audit and review services	**1,850**	1,800
– Other services	**–**	1,528
Depreciation	**5,390**	543
Amortisation	**28,857**	288
Impairment loss of intangible asset	**303,345**	275,464
Operating lease charges in respect of rental of office premises	**1,429**	1,117

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012	2011
	HK$'000	*HK$'000*
Deferred tax		
Reversal and origination of temporary differences	**(83,202)**	(64,388)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2012 and 2011.

(iii) Pursuant to the income tax laws and regulations of the People's Republic of China (the "PRC"), the company's subsidiary in the PRC is subject to PRC corporate income tax at a rate of 25% (2011: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose. Deferred tax arises from impairment loss and construction profit of intangible asset – service concession arrangement.

(b) Reconciliation between tax credits and accounting loss at applicable tax rates:

	2012	2011
	HK$'000	*HK$'000*
Loss before taxation	**(369,420)**	(282,212)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(90,202)**	(66,878)
Tax effect on tax losses not recognised	**7,000**	2,498
Tax effect on non-taxable income	**–**	(8)
Income tax credits	**(83,202)**	(64,388)

8. DIVIDENDS

No dividend has been declared or paid by the Company since its incorporation.

9. LOSS PER SHARE

(a) Loss Per Share

	2012	2011
	'000	*'000*
Issued ordinary shares at 1 January	**412,608**	412,608
Weighted average number of ordinary shares at 31 December	**412,608**	412,608

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$258,726,000 (2011: HK$197,800,000) and the weighted average number of 412,608,000 (2011: 412,608,000) shares in issue during the year.

(b) Diluted Loss Per Share

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted loss per share is equivalent to basic loss per share.

10. PREPAYMENTS AND OTHER RECEIVABLES

All of the prepayments and other receivables are expected to be recovered within one year.

11. ACCRUALS AND OTHER PAYABLES

Included in accruals and other payables as at 31 December 2012 are contract retention deposits payable to independent contractors of HK$74,945,000 (2011: HK$110,831,000), construction fees payables of HK$56,781,000 (2011: nil) and advance received of HK$112,230,000 (2011: HK$129,518,000). Subsequent to 31 December 2012, the Group has entered into agreements with certain contractors to extend the payment dates of a total amount of HK$74,945,000 to 2014. The advance received expected to be recognised as income after more than 1 year is HK$77,698,000 (2011: HK$112,249,000). All of the remaining accruals and other payables are expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

2012 was the first year that the Group had a full year operation of the Sui-Yue Expressway (Hunan Section) (the "Expressway"). The Group started to operate the Expressway and generate toll revenue from the Expressway since its commencement of operation in December 2011.

The global economy was gloomy during 2012 due to the Euro-zone sovereign debt crisis. Although the domestic economy of the PRC was still in an appreciation trend, growth has been slowing down. Both the GDP and the total import and export recorded a drop in the growth rate. Such factor resulted in a general shrinkage in the natural growth of toll highway projects.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$138.9 million, dropped by 87.6% from that for the year ended 31 December 2011 of approximately HK$1,124.7 million. The decrease in the turnover was mainly due to the completion of the major construction works of the expressway near the end of 2011. Among the turnover of the Group in 2012, there was only about HK$33.0 million construction revenue, which was only about 2.9% of that in 2011. In respect of the Expressway operation, the Group collected about HK$89.7 million of toll revenue from the Expressway. In addition, the Group received about HK$16.2 million rental income from the service station along the Expressway.

Gross Profit

The Group reported a gross profit rate of about 43.6% for the year ended 31 December 2012 compared to about 2.2% for the year ended 31 December 2011. The increase was mainly attributed by the change of composition of the turnover of the Group and a shift from earning of construction revenue, which has only a nominal gross profit of about 2.2%, to collecting of toll revenue during the year.

Other revenue and other net loss

The Group recorded other revenue and other net loss of approximately HK$0.4 million and HK$1.3 million (2011: HK$0.3 million and HK$0.4 million) respectively. Other revenue of the Group was mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net loss represented the exchange difference and the change in fair value of derivative financial instrument.

The Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying exposure. As at 31 December 2012, the Group had outstanding floating-to-fixed interest rate swaps contracts in the aggregate amount of HK$600 million (2011: HK$600 million). Change in fair value of such derivative financial instrument as at 31 December 2012 was about HK$1.6 million.

Administrative expenses

Administrative expenses for the year ended 31 December 2012 was approximately HK$31.2 million which was nearly the same as that for the year ended 31 December 2011. Since the commencement of the operation of the expressway, most of the administrative expenses are related to the toll road operation while included in that of last year was about the professional fee incurred for the acquisition of the entire issued share capital of Sumgreat Investments Limited. The proposed acquisition was terminated because of the volatility of the capital market, which led to the non-satisfaction of certain condition precedent to the sales and purchase agreement.

Impairment loss of intangible assets

During the completion stage of the construction work in 2012, the sub-contractors have raised new claims regarding the changes of work done and price compensation for material used, which has led to an increase in construction costs of the Expressway by HK$77.1 million from the original estimate at 31 December 2011. On the other hand, after one full year of operation, the Directors noted that the actual traffic volume of the Expressway in 2012 was lower than the volume previously projected in March 2012. This is mainly affected by the following two factors:

1. On 2 August 2012, the State Council announced the Toll-Free on Major Festivals and Holidays for Small Passenger Vehicles Implementation Policy (《重大節日免小型客車通行費實施方案》) (the "Holiday Toll-Free Policy"). Pursuant to the Holiday Toll-Free Policy, small passenger vehicles with 7 seats or fewer would be entitled to use certain toll roads during major statutory holidays free of charge. Based on the actual traffic volume from 2 August 2012 to 31 December 2012 since such policy was first introduced, the Group has assessed the impact of such policy on the toll revenue of the Expressway and estimated there would be a decrease in toll revenue by approximately 3.3% annually resulting from the implementation of the Holiday Toll-Free Policy.

2. The downturn of the Euro economy environment has led to a significant slowdown of growth rate of China's economy. Actual traffic flow for 2012 was 22% lower than the forecast performed in March 2012. The decrease in 2012 actual traffic volume does not only affect the 2013 forecast, but also the traffic volume projection for the remaining 26 years of the concession period of the Expressway since 2012 becomes the base year for the purpose of the forecast. Based on the valuer's revised forecast performed in March 2013, it is estimated that the traffic flow would be 11.7% lower than the forecast performed in March 2012.

The Group has assessed the recoverable amount of the cash generating unit (CGU) containing the Expressway. Whilst there may be moderate increase in growth rate in the traffic flow, it is not enough to cover the effect of drop in traffic flow in the first year. As a result, the carrying amount of the intangible asset – service concession arrangement related to the Expressway was written down by HK$303.3 million (2011: HK$275.4 million) (included in the consolidated income statement).

Key assumptions used for the value in use calculation are as follows:

	2012	2011
Period of operation	**27 years**	27 years
Average annual toll revenue growth rate over the concession period	**8.9%**	8.4%
Discount rate	**12.5%**	12%

Discount rate

The discount rate is a post-tax measure estimated using the Capital Asset Pricing Model ("CAPM") based on the industry average ratios and the CGU's specific risks.

Average annual toll revenue growth rate over the concession period

The toll revenue growth rate was determined based on forecasted traffic volume growth and increase in toll rates. The average traffic volume growth rate is estimated to be 5.2% (2011: 4.9%) per annum over the concession period. A toll rate increase of 15% (2011: 15%) every 5 years is assumed in the forecast. Actual toll rate adjustments are subject to approval by the Provincial Price Control Bureau.

Sensitivity to changes in assumptions

Following the impairment on the intangible asset – service concession arrangement, its recoverable amount is equal to its carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment. A sensitivity analysis on the discount rate and toll revenue has been performed by the Directors as follows.

Increase or decrease of the discount rate by 1%

	11.5%	12.5%	13.5%
Impairment loss (HK$)	187,494,000	303,345,000	397,169,000

Increase or decrease of the toll revenue by 5%

	Decrease 5%	Current estimate	Increase 5%
Impairment loss (HK$)	388,741,000	303,345,000	217,026,000

Finance costs

For the year ended 31 December 2012, finance costs was about HK$94.5 million while it was only about HK$0.3 million for the year ended 31 December 2011. According to the accounting policy of the Group, borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Therefore, all the finance costs related to the construction of the Expressway are capitalised in the previous accounting periods. But after the commencement of the operation of the Expressway from December 2011, all the finance costs incurred were all expenses in the consolidated income statement of the Group.

Loss for the year

As the Group incurred an impairment loss of intangible assets and ceased to capitalize its borrowing costs during the year, the loss for the year ended 31 December 2012 increased from approximately HK$217.8 million for the year ended 31 December 2011 to approximately HK$286.2 million.

Liquidity and financial resources

During the year ended 31 December 2012, the Group financed its operations and capital expenditures by the capital of the Company and long-term secured bank loans. As at 31 December 2012, total bank loans drawn by the Group was about HK$1,336.6 million (2011: HK$1,213.8 million) and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to approximately HK$21.8 million (2011: HK$168.2 million).

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operation and the future development demands for capital. As at 31 December 2012, total available banking facilities of the Group amounted to HK$1,356.9 million from China Merchants Bank and Wing Lung Bank Limited, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was HK$1,336.6 million (2011: HK$1,213.8 million) (equivalent to RMB1,083.8 million (2011: RMB984 million)). The ratio of outstanding bank loans to equity holders' equity was 668.3% (2011:264.4%).

As at 31 December 2012, the bank loans are repayable as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 year	**601,578**	–
After 1 year but within 2 years	**24,666**	597,047
After 2 years but within 5 years	**147,996**	111,015
After 5 years	**562,385**	505,735
	1,336,625	1,213,797

The Group's borrowings were mainly arranged on a floating rate basis. In 2012, the Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying interest rate fluctuation exposure. As at 31 December 2012, the Group had outstanding floating-to-fixed interest rate swap contracts in the aggregate amount of HK$600 million (2011: HK$600 million).

Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 31 December 2012, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Pledge of assets

As at 31 December 2012, the banking facilities of HK$1,356.9 million from China Merchants Bank and Wing Lung Bank Limited was secured by the pledge of the toll collection right in relation to the Expressway.

Capital commitments

Capital commitments outstanding as at 31 December 2012 which were not provided for in the financial statements of the Company were as follows:

	2012	2011
	HK$'000	*HK$'000*
Contracted for	**–**	92,765

The capital commitments for the year 2011 represented the costs for the construction of the Expressway.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

The Expressway is a dual three-lane expressway with a length of approximately 24.08 km and is connecting the southern end of the Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau.

The year 2012 was the first full year of operation of the Expressway. Total toll revenue collected for the year ended 31 December 2012 was about HK$89.7 million. Although it was lower than the previous projected figure, the management was satisfied with the result, especially under the adverse external economic environment.

Proposed acquisition of the entire share capital of Sumgreat Investments Limited

On 12 April 2011, the Group entered into a share and purchase agreement between Mr. Chan Yeung Nam as seller and the Company as buyer dated 12 April 2011 (as supplemented by the first supplemental agreement and the second supplemental agreement entered into between the parties dated 30 September 2011 and 12 November 2011, respectively) to acquire the entire interest of Sumgreat Investments Limited and its subsidiaries. Sumgreat Investments Limited and its subsidiaries are mainly engaged in the construction, operation and management of expressway projects. At the time when the share purchase agreement was entered into, it has had infrastructure projects, namely the Shuiguan Expressway and Shuiguan Expressway Extension Line, which were in operation and revenue generating. It was also receiving fees from the provision of project management services in respect of the Shahe Road Project and the Hengping Road Project. In addition, there were two further infrastructure projects which were under construction at the time, namely the Shenzhen Qingping Expressway and the Shenzhen Eastern Expressway.

The Group was of the view that the acquisition will enable the Group to derive immediate substantial earnings and cash flow contribution. Furthermore, it was in line with the business strategy of the Group to pursue other infrastructure projects in China either by way of acquisition or capitalize on new opportunities. It also will enhance the Group's competitiveness and further strengthen the Group's reputation within the industry and improve its overall financial performance.

As stated in the announcement of the Company dated 2 May 2012, due to the volatility of the capital market, certain condition precedents to such sales and purchase agreement, including the proposed placing of up to 780,000,000 new ordinary shares with par value of HK$0.01 each in the share capital of the Company, have not been satisfied. The acquisition did not proceed to completion after the lapse of the long stop date on 30 April 2012.

For further details of the said acquisition, please refer to the announcements of the Company dated 12 April 2011, 30 September 2011, 14 November 2011 and 2 May 2012, and the circular of the Company dated 24 June 2011.

Employees and emoluments

As at 31 December 2012, the Group employed a total of 221 (2011: 200) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2011, the Group's total expenses on the remuneration of employees was approximately HK$20.8 million (2011: HK$15.6 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2012.

PROSPECTS

The Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the construction of the Expressway completed and operation commenced in December 2011, the Company believes that the current relatively limited trading activities between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province would increase, resulting in significant vehicle turnover for the Expressway. Although there were adverse external economic factors and unfavourable government policy about the toll road operation, the management is still optimistic about the long term prospect of the Expressway in view of recent rebound of China's GDP in the fourth quarter of 2012. With the improvement in the world economy, especially in US, the management of the Company are full of confidence about the prospect of the Chinese economy and our Expressway.

With the experience of the directors of the Company (the "Directors") in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them within the PRC, the Group will continue to tap and pursue opportunities which are consistent with its overall business strategies, and will aim to generate a satisfactory return on investment.

In accordance with this strategy, the Group will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issue shares as required under the Listing Rules for the year ended 31 December 2012.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, the Directors considered that the Company had complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise interests of the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2012.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the Independent Auditor's Report from the external auditors of the Company, KPMG:

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that as of 31 December 2012, the Group's current liabilities exceed its current assets by approximately $831,802,000. As explained in note 1(b) to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern."

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the New Code. The audit committee is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee comprises all three independent non-executive directors of the Company, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee of the Company and has professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the year ended 31 December 2012. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board does not recommend any dividend payment for the year ended 31 December 2012.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 28 May 2013. Notice of the annual general meeting will be issued and dispatched to shareholders of the Company in due course. The Company's register of members will be closed from 27 May 2013 to 28 May 2013 (both days inclusive), during such period no transfer of the Shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfers of Shares accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 24 May 2013.

PUBLICATION OF 2012 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is also published on the website of the Company (www.huayu.com.hk), and the website of the Stock Exchange (www.hkexnews.hk) and the 2012 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express thanks and gratitude on behalf of the Company to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers and bankers for their continuous support.

On behalf of the Board of
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 28 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Chan Yeung Nam, Mr. Mai Qing Quan, Mr. Fu Jie Pin, Mr. Chen Min Yong, and Ms. Mao Hui and the independent non-executive directors of the Company are Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.