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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 2013

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 2013, together with comparative figures for the preceding year ended 31 December 2012, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
Turnover	4	167,758	138,908
Cost of sales		<u>(57,723)</u>	<u>(78,404)</u>
Gross profit		110,035	60,504
Other revenue	5	604	403
Other net income/(loss)	5	18,295	(1,321)
Administrative expenses		(28,298)	(31,173)
Impairment loss of intangible asset		<u>–</u>	<u>(303,345)</u>
Profit/(loss) from operations		100,636	(274,932)
Finance costs		<u>(90,758)</u>	<u>(94,488)</u>
Profit/(loss) before taxation	6	9,878	(369,420)
Income tax	7	<u>(1,737)</u>	<u>83,202</u>
Profit/(loss) for the year		8,141	<u>(286,218)</u>
Attributable to:			
Equity shareholders of the Company		6,362	(258,726)
Non-controlling interests		<u>1,779</u>	<u>(27,492)</u>
Profit/(loss) for the year		8,141	<u>(286,218)</u>
Profit/(loss) per share (HK cents)			
Basic and diluted	9	<u>1.54</u>	<u>(62.71)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2013*

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit/(loss) for the year	8,141	(286,218)
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of		
– financial statements of subsidiaries outside Hong Kong	<u>8,447</u>	<u>(231)</u>
Total comprehensive income for the year	<u>16,588</u>	<u>(286,449)</u>
Attributable to:		
Equity shareholders of the Company	13,967	(258,934)
Non-controlling interests	<u>2,621</u>	<u>(27,515)</u>
Total comprehensive income for the year	<u>16,588</u>	<u>(286,449)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 December 2013*

	<i>Note</i>	2013 HK\$'000	2012 HK\$'000
Non-current assets			
Property, plant and equipment		24,273	28,765
Intangible asset – service concession arrangement		1,696,673	1,680,888
Deferred tax assets		152,471	149,556
		1,873,417	1,859,209
Current assets			
Prepayments and other receivables	<i>10</i>	9,352	11,896
Cash at bank and on hand		21,142	21,809
		30,494	33,705
Current liabilities			
Derivative financial instrument		–	1,966
Accruals and other payables	<i>11</i>	204,653	259,657
Amount due to related companies		16,004	2,306
Bank loans		608,171	601,578
		828,828	865,507
Net current liabilities		(798,334)	(831,802)
Total assets less current liabilities		1,075,083	1,027,407
Non-current liabilities			
Bank loans		753,913	735,047
Amount due to the controlling shareholder of the Company		78,579	66,357
		832,492	801,404
NET ASSETS		242,591	226,003
CAPITAL AND RESERVES			
Share capital		4,126	4,126
Reserves		209,858	195,891
Total equity attributable to equity shareholders of the Company		213,984	200,017
Non-controlling interests		28,607	25,986
TOTAL EQUITY		242,591	226,003

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 2013 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 2013, the Group's net current liabilities were HK\$798,334,000. The Group is dependent upon the financial support from the bankers, the controlling shareholder and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next 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 next twelve months;
- ii. among the current liabilities, HK\$594,157,000 were bank loans fall due in 2016 with payment on demand terms. The Group has secured a contractual right to draw down from a long-term secured bank loan facility from another bank should the loan be recalled on demand by the bank;
- iii. advance receipt of HK\$66,775,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;
- iv. the controlling shareholder of the Company has undertaken that repayment of advances of HK\$78,579,000 at 31 December 2013 will not be requested in the following 12 months;
- v. while the Group is applying for additional bank loans, the controlling shareholder confirms to provide adequate financial support to the Company as is necessary to ensure its continuing operation for a period of at least 12 months from 31 December 2013.

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 a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

HKFRS 10, Consolidated financial statements

HKFRS 12, Disclosure of interests in other entities

HKFRS 13, Fair value measurement

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year. Impacts of the adoption of other new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles “statement of profit or loss” and “statement of profit or loss and other comprehensive income” as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

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 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:

	2013	2012
	HK\$'000	HK\$'000
Construction revenue in respect of service concession arrangements	–	32,966
Toll income	122,258	89,694
Rental income	45,500	16,248
	167,758	138,908

5. OTHER REVENUE AND NET LOSS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Other revenue		
Billboard rental income	520	311
Interest income from bank deposits	84	92
	<u>604</u>	<u>403</u>
Other net income/(loss)		
Exchange gain	19,386	37
Change in fair value of a derivative	–	(1,631)
Losses from maturity of a derivative	(1,567)	–
Others	476	273
	<u>18,295</u>	<u>(1,321)</u>

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	51,847	55,777
Interest on bank loans repayable beyond five years	38,911	38,711
	<u>90,758</u>	<u>94,488</u>

* *There is no borrowing costs capitalised for the year ended 31 December 2013 (2012: Nil).*

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
(b) Staff costs:		
Salaries, wages and other benefits	18,525	18,378
Contributions to defined contribution retirement plans	2,832	2,408
	<u>21,357</u>	<u>20,786</u>

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.

	2013 <i>HK\$’000</i>	2012 <i>HK\$’000</i>
(c) Other items:		
Auditors’ remuneration		
– Audit and review services	2,084	1,850
Depreciation	5,410	5,390
Amortisation	36,238	28,857
Impairment loss of intangible asset	–	303,345
Operating lease charges in respect of rental of office premises	925	1,429

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 <i>HK\$’000</i>	2012 <i>HK\$’000</i>
Deferred tax		
Reversal and origination of temporary differences	1,737	(83,202)

- (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 2013 and 2012.
- (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% (2012: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary used its accumulated tax losses carried from previous years. Deferred tax reversal and origination are in connection with the impairment provision and construction profit recognised in intangible asset-service concession arrangement.

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit/(loss) before taxation	<u>9,878</u>	<u>(369,420)</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	4,195	(90,202)
Tax effect on tax losses not recognised	687	7,000
Use of tax losses carried from previous years	<u>(3,145)</u>	<u>–</u>
Income tax	<u>1,737</u>	<u>(83,202)</u>

8. DIVIDENDS

The directors of the Company (the “Directors”) do not recommend the declaration of any final dividend for the year ended 31 December 2013.

9. PROFIT/(LOSS) PER SHARE

(a) Profit/(loss) Per Share

	2013 <i>'000</i>	2012 <i>'000</i>
Issued ordinary shares at 1 January	<u>412,608</u>	<u>412,608</u>
Weighted average number of ordinary shares at 31 December	<u>412,608</u>	<u>412,608</u>

The calculation of profit per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of HK\$6,362,000 (2012: loss of HK\$258,726,000) and the weighted average number of 412,608,000 (2012: 412,608,000) shares in issue during the year.

(b) Diluted Profit/(Loss) Per Share

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted profit/(loss) per share is equivalent to basic profit/(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 2013 are contract retention deposits payable to independent contractors of HK\$71,834,000 (2012: HK\$74,945,000), construction fees payables of HK\$49,739,000 (2012: HK\$56,781,000) and advance received of HK\$66,775,000 (2012: HK\$112,230,000). The advance received expected to be recognised as income after more than 1 year is HK\$22,258,000 (2012: HK\$77,698,000). All of the remaining accruals and other payables are expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

2013 was a rewarding year as it was the first year the Group recorded a profit since the commencement of the operation. With the steady and stable growth in the Chinese economy, the traffic and the toll fee revenue of the Sui-Yue Expressway (Hunan Section) (the “Expressway”) had a substantial increase during the year.

TURNOVER

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK\$167.8 million, increasing by 20.8% from that for the year ended 31 December 2012 of approximately HK\$138.9 million. The growth in turnover was mainly because of the increase of toll fee revenue of the Expressway and the rental income from the service area along the Expressway. Total amount of toll fee revenue was about HK\$122.3 million, increasing by 36.3% from about HK\$89.7 million for the year ended 31 December 2012. Average traffic of the Expressway was about 297,000 vehicles per month and of which, over 50% were heavy vehicles. In addition, rental income from the service area along the Expressway contributed a significant amount to the turnover of the Group. It increased from HK\$16.2 million for the year ended 31 December 2012 to about HK\$45.5 million for this year. The increase was mainly because the Group only commenced collecting rental income from the second half of the year ended 31 December 2012.

GROSS PROFIT

The Group had a gross profit ratio of 65.6% for the year ended 31 December 2013 while the gross profit ratio was about 43.6% for the year ended 31 December 2012. The improvement was mainly attributed by the change of the composition of the turnover of the Group. Since the completion of the construction work of the Expressway, the Group had no more construction revenue, which had only a nominal gross profit ratio of about 2.2%, recorded this year.

OTHER REVENUE AND OTHER NET INCOME/(LOSS)

For the year ended 31 December 2013, the Group recorded other revenue and other net income of approximately HK\$0.6 million and HK\$18.3 million respectively compared to the other revenue and other net loss of approximately HK\$0.4 million and HK\$1.3 million for the year ended 31 December 2012. Other revenue of the Group mainly includes the rental income from the billboard along the Expressway and interest income from bank deposits. Other net income/loss represented the exchange gain and the losses from maturity of a 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. Under the swap agreement, the Group paid a fixed swap rate of 0.68% on notional contract amount of HK\$600 million, in exchange for receipts on the same amount at a variable interest rate based on the applicable 3-month HIBOR at the time of payment. The interest rate swap agreement matured in November 2013 and a loss of approximately HK\$1.6 million was recognised.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2013 was approximately HK\$28.3 million, decreased by 9.2% from that for the year ended 31 December 2012. The decrease was mainly due to the cost saving action after the completion of construction work of the Expressway, especially the reduction of the number of directors specialised in building and construction. In addition, there was a substantial drop in the professional fee after the cessation of the proposed acquisition of the entire issued share capital of Sumgreat Investments Limited in April 2012.

IMPAIRMENT LOSS OF INTANGIBLE ASSET

The Group had assessed the recoverable amount of the cash generating unit containing the Expressway. Since the growth rate of the traffic volume of the Expressway was consistent with the one previously projected in March 2013, the Group considered that it was not necessary to further write down the carrying amount of the intangible asset – service concession arrangement related to the Expressway as at 31 December 2013 (2012: HK\$303.3 million).

FINANCE COSTS

For the year ended 31 December 2013, the finance costs of the Group was about HK\$90.8 million, decreased by 3.9% from that for the year ended 31 December 2012 of approximately HK\$94.5 million. The minor decrease was mainly due to the fluctuation of effective bank loan interest rate.

PROFIT/(LOSS) FOR THE YEAR

As there was substantial growth in the toll fee revenue and no more impairment losses of intangible assets provided for the year ended 31 December 2013, the Group had profit of approximately HK\$8.1 million compared to a loss for the year of about HK\$286.2 million for the year ended 31 December 2012.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2013, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loans and interest free loan from controlling shareholder. As at 31 December 2013, total bank loans drawn by the Group was about HK\$1,362.1 million (2012: HK\$1,336.6 million) and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to approximately HK\$21.1 million (2012: HK\$21.8 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2013, total available banking facilities of the Group amounted to HK\$1,399.1 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\$1,362.1 million (2012: HK\$1,336.6 million). The ratio of outstanding bank loans to equity holders' equity was 636.5% (2012: 668.3%).

As at 31 December 2013, the bank loans are repayable as follows:

	2013	2012
	HK\$'000	HK\$'000
Within 1 year	608,171	601,578
After 1 year but within 2 years	21,020	24,666
After 2 years but within 5 years	105,101	147,996
After 5 years	627,792	562,385
	1,362,084	1,336,625

The Group's borrowings were mainly arranged on a floating rate basis. In 2013, 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. In November 2013, the interest rate swap agreement matured. As at 31 December 2013, the Group did not enter into any hedging arrangements to hedge against exposure in interest risk.

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 2013, 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 2013, the banking loans of HK\$1,362.1 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

As at 31 December 2013, there was no material capital commitments outstanding for the Company.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

The Expressway commenced its operation from the end of 2011. 2013 was the second full year of operation of the Expressway and its performance during the year was encouraging. The traffic reached 297,000 vehicles per month and the average monthly toll fee revenue was about HK\$10.0 million. In addition, the rental income from the service area along the Expressway contributed a significant amount to the turnover of the Group.

Employees and emoluments

As at 31 December 2013, the Group employed a total of 246 (2012: 221) employees in the PRC and Hong Kong which included management staff, engineers, technicians, etc. For the year ended 31 December 2013, the Group's total expenses on the remuneration of employees was approximately HK\$21.4 million (2012: HK\$20.8 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) and the 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 2013.

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 steady and stable growth in the Chinese economy, the management of the Company are full of confidence about the prospect of the Expressway.

With the experience of the Directors in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them with 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 may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, the Group 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. Furthermore, the Group will also consider to extend its operation to include some other toll road related businesses once favourable opportunity appears.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2013.

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 2013.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2013, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

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 2013.

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 2013 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 2013, the Group’s current liabilities exceed its current assets by approximately HK\$798,334,000. 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, the controlling shareholder 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 CG 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 2013. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2013 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 2013.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 16 May 2014. 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 15 May 2014 to 16 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 14 May 2014.

PUBLICATION OF 2013 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 2013 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 2014

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 and Mr. Chen Min Yong and the independent non-executive directors of the Company are Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.