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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

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK\$80.3 million, representing a decrease of approximately 17.7% over the corresponding period last year.
- Gross profit for the Period was approximately HK\$44.3 million, representing a decrease of approximately 25.2% over the corresponding period last year.
- Loss attributable to the equity shareholders of the Company for the Period was approximately HK\$4.1 million.
- Basic and diluted loss per share for the Period amounted to HK1.00 cents.

The board (the “Board”) of directors (the “Directors”) of Huayu Expressway Group Limited (the “Company”) hereby announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 (the “Period”), together with the comparative figures for the corresponding period in 2015. The interim financial report for the Period has not been audited, but have been reviewed by the audit committee of the Company (the “Audit Committee”) and KPMG, Certified Public Accountants, the external auditors of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016 – unaudited

	Note	Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	3	80,332	97,645
Cost of sales		<u>(36,011)</u>	<u>(38,413)</u>
Gross profit		44,321	59,232
Other revenue		221	91
Other net income		357	443
Administrative expenses		<u>(12,948)</u>	<u>(11,749)</u>
Profit from operations		31,951	48,017
Finance costs		<u>(34,339)</u>	<u>(43,828)</u>
(Loss)/profit before taxation	4	(2,388)	4,189
Income tax	5	<u>(1,597)</u>	<u>(1,180)</u>
(Loss)/profit for the period		<u>(3,985)</u>	<u>3,009</u>
Attributable to:			
Equity shareholders of the Company		(4,132)	2,296
Non-controlling interests		<u>147</u>	<u>713</u>
(Loss)/profit for the period		<u>(3,985)</u>	<u>3,009</u>
(Loss)/profit per share (HK Cents)			
Basic and diluted	6	<u>(1.00)</u>	<u>0.56</u>

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(Loss)/profit for the period	(3,985)	3,009
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– Financial statements of a subsidiary outside Hong Kong	<u>(1,835)</u>	<u>131</u>
Total comprehensive income for the period	<u>(5,820)</u>	<u>3,140</u>
Attributable to:		
Equity shareholders of the Company	(5,787)	2,414
Non-controlling interests	<u>(33)</u>	<u>726</u>
Total comprehensive income for the period	<u>(5,820)</u>	<u>3,140</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited

	<i>Note</i>	At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		12,226	15,393
Intangible asset – service concession arrangement		1,333,192	1,366,208
Deferred tax assets		134,808	139,131
		<u>1,480,226</u>	<u>1,520,732</u>
Current assets			
Trade and other receivables	7	5,066	4,533
Pledged bank deposits		–	14,395
Cash and cash equivalents		7,406	9,120
		<u>12,472</u>	<u>28,048</u>
Current liabilities			
Accruals and other payables	8	72,439	120,007
Amount due to a related company		–	14,329
Bank loans		66,493	629,278
		<u>138,932</u>	<u>763,614</u>
Net current liabilities		<u>(126,460)</u>	<u>(735,566)</u>
Total assets less current liabilities		<u>1,353,766</u>	<u>785,166</u>
Non-current liabilities			
Bank loan		1,154,593	661,474
Amount due to a related company		77,301	–
Amount due to the controlling shareholder of the Company		103,089	99,089
		<u>1,334,983</u>	<u>760,563</u>
NET ASSETS		<u>18,783</u>	<u>24,603</u>
CAPITAL AND RESERVES			
Share capital		4,126	4,126
Reserves		5,716	11,503
Total equity attributable to equity shareholders of the Company		<u>9,842</u>	<u>15,629</u>
Non-controlling interests		<u>8,941</u>	<u>8,974</u>
TOTAL EQUITY		<u>18,783</u>	<u>24,603</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. In the auditors' report dated 31 March 2016, the auditors expressed an unqualified opinion on those financial statements but included an emphasis of matter paragraph drawing attention to conditions which indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

During the periods ended 30 June 2016, the Group incurred a net loss of \$3,985,000. As of 30 June 2016, the Group had net current liabilities of \$126,460,000 and accumulated losses of \$730,115,000. The Group is dependent upon the financial support from the bankers and 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 continue to 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 the controlling shareholder of the Company has undertaken that repayment of advances of \$103,089,000 and advance from a related party of \$77,301,000 at 30 June 2016 will not be requested until after 31 December 2018 and only if the Group is in a position to meet all repayment obligations at that time; and
- iii the controlling shareholder confirms to provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least 12 months from the end of the reporting period.

Consequently, the interim financial report has been prepared on a going concern basis. The interim financial report does not include any adjustments that would result should the Group be unable to operate as a going concern.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendment is relevant to the group:

- **Amendments to HKAS 38, Clarification of acceptable methods of amortisation**

The amendments introduce a rebuttable presumption to HKAS 38 that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are “highly correlated”, or when the intangible asset is expressed as a measure of revenue. The amendments do not have an impact on the Group’s interim financial report as the Group recognised amortisation of intangible asset-service concession arrangement on a unit of usage basis over the estimated useful life, which is not a revenue-based amortisation method.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are operation and management of an expressway in the People’s Republic of China (“PRC”).

Revenue during the period represented revenue from operation of the expressway under the service concession arrangement and leasing of service areas. The amount of each significant category of revenue recognised in revenue during the period is as follows:

	Six months ended 30 June	
	2016	2015
	HK\$’000	HK\$’000
Toll income	60,691	76,741
Rental revenue	19,641	20,904
	80,332	97,645

4 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank loans	<u>34,339</u>	<u>43,828</u>
(b) Staff costs:		
Salaries, wages and other benefits	7,305	10,984
Contributions to defined contribution retirement plans	<u>1,700</u>	<u>1,470</u>
	<u>9,005</u>	<u>12,454</u>
(c) Other items:		
Depreciation	2,909	2,621
Amortisation	24,579	26,106
Operating lease charges in respect of rental of office premises	<u>107</u>	<u>–</u>

5 INCOME TAX

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Deferred tax		
Origination and reversal of temporary differences	<u>(1,597)</u>	<u>(1,180)</u>
(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 periods ended 30 June 2016 and 2015.		
(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiary in the PRC is liable to PRC corporate income tax at a rate of 25% (2015: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary utilised its accumulated tax losses carried from previous years.		

6 (LOSS)/PROFIT PER SHARE

(a) (Loss)/profit per share

The calculation of basic (loss)/profit per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company for the period of \$4,132,000 (six months ended 30 June 2015: profit of \$2,296,000) and the weighted average number of 412,608,000 (2015: 412,608,000) shares in issue during the interim period.

(b) Diluted (loss)/profit per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2016 and 2015, therefore, diluted (loss)/profit per share is equivalent to basic (loss)/profit per share.

7 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Within 1 month	1,581	1,042
Over 1 month	<u>63</u>	<u>84</u>
Trade receivables	1,644	1,126
Prepayments	2,395	2,538
Other receivables	<u>1,027</u>	<u>869</u>
	<u><u>5,066</u></u>	<u><u>4,533</u></u>

8 ACCRUALS AND OTHER PAYABLES

	At 30 June 2016 <i>HK\$'000</i>	At 31 December 2015 <i>HK\$'000</i>
Construction payables	62,358	78,366
Advance received	–	20,888
Accruals	<u>10,081</u>	<u>20,753</u>
	<u><u>72,439</u></u>	<u><u>120,007</u></u>

Included in accruals and other payables as at 30 June 2016 are contract retention deposits payable to independent contractors of \$24,705,000 (2015: \$36,763,000), construction fees payables of \$37,595,000 (2015: \$41,261,000) and advance received of Nil (2015: \$20,888,000). At 30 June 2016, all of the accruals and other payables are expected to be settled within one year (2015: all of the accruals and other payables are expected to be settled or recognised as income within one year).

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded revenue of approximately HK\$80.3 million, decreased by about 17.7% from the corresponding period last year of approximately HK\$97.6 million. The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$60.7 million, decreased by 20.9% from about HK\$76.7 million of the corresponding period in 2015. For the Period, the average traffic flow of the Expressway was about 456,000 vehicles per month and had a steady growth over the years. But, due to the recent traffic restrictions in Hunan Province regarding motor vehicles (including measures to raise the toll rate for the overloading portion of trucks and imposition of higher penalty for traffic violations), the toll per vehicle decreased significantly during the Period.

In addition to the toll revenue, the Group also had approximately HK\$19.6 million of rental income from the leasing of the service area along the Expressway. The Group is now negotiating with the lessee on the renewal of the rental agreements of the service areas within the Expressway. Owing to the downturn of the economic environment in the PRC, it is estimated that the rental revenue to be generated from service areas within the Expressway will be lower than the amount previously projected.

Cost and gross profit

Cost and gross profit of the Group were approximately HK\$36.0 million and HK\$44.3 million for the Period respectively as compared to the corresponding period last year of approximately HK\$38.4 million and HK\$59.2 million respectively. The cost of the Group was mainly the staff cost and the amortization of the concession right of the Expressway. Due to the decrease in carrying amount of the intangible asset – service concession arrangement, the corresponding amortization of the concession right decreased during the Period. As a result, the cost of the Group decreased by approximately 6.3%. Due to the decrease in revenue, the gross profit for the Period decreased by about 25.2% from the corresponding period last year.

Other revenue

Other revenue of the Group was approximately HK\$221,000 (2015: HK\$91,000) for the Period. It mainly represented the rental income generated from the billboard along the Expressway and the interest income generated from bank deposits.

Other net income

The Group recorded other net income of approximately HK\$357,000 (2015: HK\$443,000) for the Period. Other net income mainly represented the compensation received and exchange difference.

Administrative expenses

Administrative expenses of the Group for the Period were approximately HK\$12.9 million, increased by about 10.2% from approximately HK\$11.9 million for the corresponding period in 2015. Most of the administrative expenses were salary and wages.

Finance costs

Finance costs of the Group for the Period were approximately HK\$34.3 million, decreased by about 21.7% from the corresponding period last year of approximately HK\$43.8 million. During the Period, the Group replaced a Hong Kong dollar denominated bank loan of approximately HK\$603 million by a RMB denominated bank loan to reduce the currency risk exposure. Since the RMB denominated bank loan has an interest rate lower than that of the Hong Kong denominated one, the interest expenses dropped significantly during the Period. In addition, the repayment of bank loan and the decrease in interest rate in China contributed to the reduction of the finance costs of the Period.

Loss attributable to equity shareholders of the Company

The loss attributable to equity shareholders of the Company for the Period was approximately HK\$4.1 million. The profit attributable to equity shareholder of the Company was about HK\$2.3 million for the corresponding period in 2015. The loss for the Period was mainly due to the decrease in the toll revenue income from the Expressway.

Liquidity and financial resources

During the Period, the Group financed its operations and capital expenditures with internal resources of the Company and long term bank loans. As at 30 June 2016, total bank loans drawn by the Group amounted to about HK\$1,221.1 million (as at 31 December 2015: HK\$1,290.8 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to HK\$7.4 million (as at 31 December 2015: HK\$9.1 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 in future development. As at 30 June 2016, total banking facilities of the Group amounted to HK\$1,221.1 million from China Merchants Bank, which was mainly for the construction costs of the Expressway, among which the outstanding secured bank loan was HK\$1,221.1 million (as at 31 December 2015: HK\$1,290.8 million). The ratio of total outstanding bank loans to equity attributable to shareholders was 124.07 (as at 31 December 2015: 82.59).

The Group's borrowings were mainly arranged on a floating rate basis. During the Period, the Group did not enter into any hedging arrangements to hedge against exposure in interest rate risk. Any substantial fluctuation of interest rate may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's interest rate exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

Employees and emoluments

As at 30 June 2016, the Group employed a total of 241 (as at 31 December 2015: 248) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the Period, the Group's total expenses on the remuneration of employees were approximately HK\$9.0 million (2015: HK\$12.5 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 (Chapter 485 of the Laws of Hong Kong) 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.

Foreign exchange 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 30 June 2016, the Group had not entered 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 arises.

PLEDGE OF ASSETS

As at 30 June 2016, the bank loans of HK\$1,221.1 million from China Merchants Bank were secured by a pledge of the toll collection right in relation to the Expressway.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

Even with the economic downturn in the PRC and specific traffic restrictions in Hunan Province regarding motor vehicles (including measures to raise the toll rate for the overloading portion of trucks and imposition of higher penalty for traffic violations), there was an increase of approximately 13.2% in average traffic from about 403,000 vehicles per month for the period ended 30 June 2015 to about 456,000 vehicles per month for the Period. Transportation network improvement around the Expressway caused a slight diversion which impacted on the traffic of the Expressway. Since there was a decrease in the proportion of overloading heavy vehicles, the average toll revenue per vehicle decreased from about HK\$31.7 for the period ended 30 June 2015 to about HK\$22.2 for the Period. As a result, the total toll revenue decreased by about 20.9% to approximately HK\$60.7 million for the Period. With the continuous growth in the traffic flow, the members of the management of the Company are confident that the total toll revenue can be back to the growth track in the near future.

Prospect

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 continuous growth in the traffic flow, the members of 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 in 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 when 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 extending its operation to include some other prosperous business once favourable opportunity appears.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares for the Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of its shareholders. It had adopted the code provisions contained in the Corporate Governance Code ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has complied with the code provisions contained in the CG Code for the Period.

EXTRACT OF INDEPENDENT REVIEW REPORT

The following is the extract of the independent review report on the Group's interim financial information for the Period from the external auditors of the Company, KPMG:

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which indicates that the Group incurred a net loss of HK\$3,985,000 during six months period ended 30 June 2016, and the Group had net current liabilities of HK\$126,460,000 and accumulated losses of HK\$730,115,000 as of 30 June 2016. As explained in note 1 to the interim financial report, the interim financial report has been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and 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 to the interim financial report, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

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. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code adopted by the Company throughout the Period.

AUDIT COMMITTEE

The Company has established an Audit Committee which is accountable to the Board and the primary duties of which include the reviewing and supervising of the Group's financial reporting process and internal control measures. The Audit Committee is comprised of three independent non-executive Directors, 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. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The Audit Committee 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 unaudited results of the Group for the Period. The Audit Committee considered that the unaudited consolidated results of the Group for the Period are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk), and the 2016 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

By Order of the Board
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Chan Yeung Nam, Mr. Mai Qing Quan and Mr. Fu Jie Pin and three independent non-executive Directors, namely, Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.