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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 2016

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 2016, together with comparative figures for the preceding year ended 31 December 2015, as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	4	<b>138,972</b>	180,624
Cost of sales		(49,220)	(74,156)
<b>Gross profit</b>		<b>89,752</b>	106,468
Other revenue	5	387	568
Other net loss	5	(445)	(37,550)
Administrative expenses		(27,063)	(24,120)
Impairment loss of intangible asset-service concession arrangement		–	(157,988)
<b>Profit/(loss) from operations</b>		<b>62,631</b>	(112,622)
Finance costs	6(a)	(64,491)	(84,801)
<b>Loss before taxation</b>	6	<b>(1,860)</b>	(197,423)
Income tax	7	(8,351)	(2,085)
<b>Loss for the year</b>		<b>(10,211)</b>	(199,508)
<b>Attributable to:</b>			
Equity shareholders of the Company		(10,477)	(180,707)
Non-controlling interests		266	(18,801)
<b>Loss for the year</b>		<b>(10,211)</b>	(199,508)
<b>Loss per share (HK cents)</b>			
Basic and diluted	9	(2.54)	(43.80)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Loss for the year</b>	<b>(10,211)</b>	(199,508)
<b>Other comprehensive income for the year</b>		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	<u>(5,935)</u>	<u>(16,042)</u>
<b>Total comprehensive income for the year</b>	<u><b>(16,146)</b></u>	<u>(215,550)</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(15,831)</b>	(195,157)
Non-controlling interests	<u>(315)</u>	<u>(20,393)</u>
<b>Total comprehensive income for the year</b>	<u><b>(16,146)</b></u>	<u>(215,550)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*

	<i>Note</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>14,068</b>	15,393
Intangible asset – service concession arrangement		<b>1,269,848</b>	1,366,208
Deferred tax assets		<b>122,319</b>	139,131
		<u><b>1,406,235</b></u>	<u>1,520,732</u>
<b>Current assets</b>			
Prepayments and other receivables	10	<b>6,039</b>	4,533
Pledged bank deposits		–	14,395
Cash at bank and on hand		<b>10,806</b>	9,120
		<u><b>16,845</b></u>	<u>28,048</u>
<b>Current liabilities</b>			
Accruals and other payables	11	<b>61,119</b>	120,007
Amount due to a related company		–	14,329
Bank loans		<b>69,121</b>	629,278
		<u><b>130,240</b></u>	<u>763,614</u>
<b>Net current liabilities</b>		<u><b>(113,395)</b></u>	<u>(735,566)</u>
<b>Total assets less current liabilities</b>		<u><b>1,292,840</b></u>	<u>785,166</u>
<b>Non-current liabilities</b>			
Bank loans		<b>1,068,618</b>	661,474
Amount due to the controlling shareholder of the Company		<b>109,028</b>	99,089
Amount due to a related company		<b>106,737</b>	–
		<u><b>1,284,383</b></u>	<u>760,563</u>
<b>NET ASSETS</b>		<u><b>8,457</b></u>	<u>24,603</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>4,126</b>	4,126
Reserves		<b>(4,328)</b>	11,503
<b>Total equity attributable to equity shareholders of the Company</b>		<b>(202)</b>	15,629
Non-controlling interests		<b>8,659</b>	8,974
<b>TOTAL EQUITY</b>		<u><b>8,457</b></u>	<u>24,603</u>

## **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, Cap 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(a) 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 of the Financial Statements**

The consolidated financial statements for the year ended 31 December 2016 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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.

During the year ended 31 December 2016, the Group incurred a net loss of \$10,211,000 (2015: \$199,508,000). As of 31 December 2016, the Group had net current liabilities of \$113,395,000 (2015: \$735,566,000) and accumulated losses of \$673,356,000 (2015: \$662,879,000). 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 indicate the existence of a material uncertainty that may cast significant doubt on 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 from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

- (i) the Group expects to continue 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 \$109,028,000 at 31 December 2016 and advance from a related party of \$106,737,000 at 31 December 2016 will not be requested until after 31 December 2018, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time;
- (iii) the directors have been actively negotiating with a commercial bank in the People's Republic of China ("PRC") for raising funds from new banking facilities, which have not yet been determined; and
- (iv) the controlling shareholder confirms its intention to provide adequate financial support to the Group as is necessary to ensure the Group's continuing operation for a period of at least 12 months from the end of the reporting period. In this regard, the controlling shareholder has advanced RMB80,000,000 to the Group in March 2017. The controlling shareholder has undertaken that repayment of this advance will not be requested until the Group has obtained funding from other sources and is in a position to meet all repayment obligations.

Consequently, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments that would result should the Group be unable to operate as a going concern.

(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 AND ESTIMATES**

- (a) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

- (b) Amortisation of intangible asset – service concession arrangement is provided on unit of usage over the concession period. Material adjustments may need to be made to the carrying amounts of intangible assets – service concession arrangement should there be a material difference between total projected traffic volume and the actual results.

The directors perform a periodic assessment of the total projected traffic volume and prospectively adjust the amortisation unit according to revised projected traffic volume. In December 2016, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of Sui-Yue Expressway (Hunan Section). The Group has adjusted the amortisation unit for the related concession intangible assets according to the revised total projected traffic volume since 1 January 2016 on a prospective basis. Due to such change in accounting estimate, the amortisation charges to current and future cost of sales has changed as below:

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 and the year after 2019</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
(Decrease)/increase of amortisation	<u>(20,513)</u>	<u>(7,476)</u>	<u>(4,824)</u>	<u>32,813</u>

#### 4. REVENUE

The principal activities of the Group are construction, operation and management of Sui-Yue Expressway (Hunan Section) (the “Expressway”) in the PRC.

Revenue 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 revenue during the year is as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Toll income	<b>119,665</b>	139,516
Rental income	<b>19,307</b>	41,108
	<hr/> <b>138,972</b> <hr/>	<hr/> 180,624 <hr/>

#### 5. OTHER REVENUE AND NET LOSS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Other revenue</b>		
Billboard rental income	<b>365</b>	532
Interest income from bank deposits	<b>22</b>	36
	<hr/> <b>387</b> <hr/>	<hr/> 568 <hr/>
<b>Other net loss</b>		
Exchange loss	<b>(1,690)</b>	(38,625)
Others	<b>1,245</b>	1,075
	<hr/> <b>(445)</b> <hr/>	<hr/> (37,550) <hr/>

## 6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

### (a) Finance costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank loans	<u>64,491</u>	<u>84,801</u>

There is no borrowing costs capitalised for the year ended 31 December 2016 (2015: Nil).

### (b) Staff costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries, wages and other benefits	18,390	20,760
Contributions to defined contribution retirement plans	<u>3,278</u>	<u>3,141</u>
	<u>21,668</u>	<u>23,901</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\$30,000. 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.

(c) **Other items**

	<b>2016</b>	2015
	<b><i>HK\$’000</i></b>	<i>HK\$’000</i>
Auditors’ remuneration		
– Audit and review services	<b>2,429</b>	2,160
Depreciation	<b>5,501</b>	5,390
Amortisation	<b>24,774</b>	48,376
Impairment loss of intangible asset		
– service concession arrangement	–	157,988
Operating lease charges in respect of rental of office premises	<b>1,521</b>	107
	<u><b>1,521</b></u>	<u>107</u>

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

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

	<b>2016</b>	2015
	<b><i>HK\$’000</i></b>	<i>HK\$’000</i>
<b>Deferred tax</b>		
Reversal and origination of temporary differences	<b>8,351</b>	2,085
	<u><b>8,351</b></u>	<u>2,085</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 years ended 31 December 2016 and 2015.
- (iii) Pursuant to the income tax laws and regulations of the PRC, the Company’s 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 sustained a loss for taxation purpose. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset-service concession arrangement.

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before taxation	<u>(1,860)</u>	<u>(197,423)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	<b>1,965</b>	(47,180)
Tax effect on tax losses not recognised	<b>5,678</b>	9,737
Tax effect on deductible temporary differences not recognised	<b>681</b>	39,497
Tax effect of non-deductible expenses	<u>27</u>	<u>31</u>
Income tax	<u><b>8,351</b></u>	<u>2,085</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 2016 (2015: Nil).

**9. LOSS PER SHARE**

(a) **Basic loss per share**

	<b>2016</b> <i>'000</i>	2015 <i>'000</i>
Issued ordinary shares at 1 January	<u><b>412,608</b></u>	<u>412,608</u>
Weighted average number of ordinary shares at 31 December	<u><b>412,608</b></u>	<u>412,608</u>

The calculation of basic loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK\$10,477,000 (2015: HK\$180,707,000) and the weighted average number of 412,608,000 (2015: 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 2016 are contract retention deposits payable to independent contractors of HK\$20,849,000 (2015: HK\$36,763,000) and construction fees payables of HK\$26,330,000 (2015: HK\$41,261,000). All of the accruals and other payables are expected to be settled or recognised as income within one year.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Due to the implementation of the traffic restrictions in Hunan Province regarding over-loaded vehicles, total revenue decreased substantially during the year ended 31 December 2016. In addition, the rental income from the service area along the Sui-Yue Expressway (Hunan Section) (the “Sui-Yue Expressway”) decreased significantly for the year ended 31 December 2016. The Group incurred a loss of the year of about HK\$10.2 million.

### **TURNOVER**

For the year ended 31 December 2016, the Group recorded a turnover of approximately HK\$139.0 million, decreased by 23.1% from that for the year ended 31 December 2015 of approximately HK\$180.6 million. The total amount of toll fee revenue of the Sui-Yue Expressway was about HK\$119.7 million, decreased by 14.2% from about HK\$139.5 million for the year ended 31 December 2015. The average traffic of the Sui-Yue Expressway was about 436,000 vehicles per month, increased by 12.1% from about 389,000 vehicles per month for the year ended 31 December 2015. However, the average toll per vehicle decreased substantially by about 23.4% from about HK\$29.9 per vehicle for the year ended 31 December 2015 to about HK\$22.9 per vehicle for the year ended 31 December 2016. The implementation of traffic restrictions in Hunan Province regarding over-loaded vehicles, including measures to increase the toll rate for the overloading portion of trucks and imposing higher penalty for the traffic violation, significantly reduced the numbers of over-loaded vehicles and the average toll fee per vehicle under the toll-by-weight charging system.

Rental income from the service area along the Sui-Yue Expressway was about HK\$19.3 million, decreased by 53.0% from about HK\$41.1 million for the year ended 31 December 2015. The Group renewed the lease for the service area along the Sui-Yue Expressway. Since there is some inception concession arrangement for the service area along the Sui-Yue Expressway, the rental income for the first few years will be lower than the average rental for the entire lease term.

### **GROSS PROFIT**

The Group had a gross profit of HK\$89.8 million for the year ended 31 December 2016, decreased by 15.7% from about HK\$106.5 million for the year ended 31 December 2015. The decrease in gross profit was mainly because of the contraction of revenue during the year ended 31 December 2016.

The gross profit ratios were about 64.6% and 58.9% for the year ended 31 December 2016 and 2015 respectively. The increase in the gross profit ratio was mainly due to the decrease in the amortisation of intangible asset – service concession arrangement, details of which can be referred to in note 3(b) under “Notes To The Financial Statement” in page 6 of this announcement.

## **OTHER REVENUE AND OTHER NET LOSS**

The Group recorded other revenue and other net loss of approximately HK\$0.4 million and HK\$0.4 million respectively for the year ended 31 December 2016 compared to other revenue and other net loss of approximately HK\$0.6 million and HK\$37.6 million for the year ended 31 December 2015. Other revenue of the Group was mainly the rental income from the billboard along the Sui-Yue Expressway and interest income from bank deposits. Other net loss mainly represented the exchange loss recorded in the books of a PRC subsidiary from the year end translation of a Hong Kong dollar denominated bank loan to RMB. Since the loan was replaced by a RMB denominated bank loan in February 2016 in order to reduce the currency risk exposure of the Group, other net loss decreased substantially during the year ended 31 December 2016.

## **ADMINISTRATIVE EXPENSES**

Administrative expenses for the year ended 31 December 2016 were approximately HK\$27.1 million, increased by 12.2% from approximately HK\$24.1 million for the year ended 31 December 2015. The increase was mainly because of the increased office rental in Hong Kong.

## **IMPAIRMENT LOSS OF INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT**

The Group has made contractual service arrangement with local government authorities for its participation in the construction, operation and management of the Sui-Yue Expressway. According to the accounting policy of the Group, internal and external sources of information are reviewed at the end of each reporting period to identify indications that the assets may be impaired. As at 31 December 2016, there is no material discrepancy between the recoverable amount and the carrying value of the intangible asset. Therefore, no impairment loss was made for the year ended 31 December 2016.

## **FINANCE COSTS**

For the year ended 31 December 2016, the finance costs of the Group were about HK\$64.5 million, decrease by 23.9% from approximately HK\$84.8 million for the year ended 31 December 2015. The decrease was mainly due to the partial repayment of the bank loans and the fluctuation of effective bank loan interest rate.

## **LOSS FOR THE YEAR**

The Group recorded a loss for the year of approximately HK\$10.2 million for the year ended 31 December 2016. As the Group did not incur significant amounts of impairment loss of intangible asset and exchange losses as for the year ended 31 December 2015, the loss for the year decreased substantially from HK\$199.5 million for the year ended 31 December 2015.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2016, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loans and interest free loan from the controlling shareholder of the Company. As at 31 December 2016, total bank loans drawn by the Group were about HK\$1,137.7 million (2015: HK\$1,290.8 million), the amount due to the controlling shareholder of the Company was HK\$109.0 million (2015: HK\$99.1 million), the amount due to a related party of the Company was HK\$106.7 million (2015: HK\$14.3 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK\$10.8 million (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 for future development. As at 31 December 2016, total available banking facilities of the Group amounted to HK\$1,229.7 million from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway, among which the outstanding secured bank loan was HK\$1,137.7 million (2015: HK\$1,290.8 million). The ratio of outstanding bank loans to total equity was 13,453.2% (2015: 5,246.3%).

As at 31 December 2016, the bank loans repayable are as follows:

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within 1 year or on demand	<b>69,121</b>	629,278
After 1 year but within 2 years	<b>73,687</b>	32,877
After 2 years but within 5 years	<b>268,296</b>	138,084
After 5 years	<b>726,635</b>	490,513
	<b><u>1,137,739</u></b>	<u>1,290,752</u>

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2016, 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 2016, 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 2016, the bank loans of HK\$1,137.7 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Sui-Yue Expressway.

## **CAPITAL COMMITMENTS**

As at 31 December 2016, there was no material capital commitment outstanding for the Company.

## **BUSINESS REVIEW**

### **Sui-Yue Expressway (Hunan Section)**

The continuous specific traffic restrictions in Hunan Province regarding motor vehicles, including measures to increase the toll rate for the overloading portion of trucks and impose higher penalty for traffic violations, adversely affected our average toll per vehicles under the toll-by-weight charging system. The average toll revenue per vehicles decreased from about HK\$29.9 for the year ended 31 December 2015 to about HK\$22.9 for the year ended 31 December 2016. As a result, the total toll revenue, which was approximately HK\$139.5 million for the year ended 31 December 2015, decreased by about 14.2% to approximately HK\$119.7 million for the year ended 31 December 2016.

On the other hand, the policies enhanced traffic efficiency of the Sui-Yue Expressway and exerted a positive effect on the comprehensive governing of over-loaded vehicles and maintaining the safety of the Sui-Yue Expressway. The average traffic per month increased from about 389,000 vehicles for the year ended 31 December 2015 to about 436,000 vehicles for the year ended 31 December 2016.

The Directors perform a periodic assessment of the total projected traffic volume. In December 2016, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of the Sui-Yue Expressway.

In addition, the rental income from the service area along the Sui-Yue Expressway contributed a significant amount to the turnover of the Group.

### **Employees and emoluments**

As at 31 December 2016, the Group employed a total of 272 (2015: 248) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2016, the Group's total expenses on the remuneration of employees were approximately HK\$21.7 million (2015: HK\$23.9 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 their 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 2016.

## **PROSPECTS**

The Sui-Yue 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 Sui-Yue Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the new connection to the adjacent expressways in the coming years, the management of the Company are confident of the prospect of the Sui-Yue Expressway.

In addition, the Hang-Rui Expressway Hunan Section “杭瑞高速（湖南段）”, which opened to traffic in late 2016, connected the Sui-Yue Expressway to the whole expressway network of Hunan province and induced new traffic to the Sui-Yue Expressway. Moreover, the Yue-Wang Expressway “岳望高速” which is expected to open to traffic by the end of 2017, is the southern extension of the Expressway and will complete the whole vertical transport corridor in Hunan Province to bring new long-distance traffic on the Sui-Yue Expressway. It is also expected that both of the new adjacent expressways aforesaid will introduce significant positive impact to the Sui-Yue Expressway in the coming few years.

As the Directors are experienced in successfully completing other PRC toll-expressway projects and have the established networking and reputation 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 addition, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider acquiring abandoned or partially 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.

## **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 2016.



## **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 2016.

## **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 2016, 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 2016.

## **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 consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Material uncertainty related to going concern**

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that the Group incurred a net loss of \$10,211,000 during the year ended 31 December 2016, and the Group had net current liabilities of \$113,395,000 and accumulated losses of \$673,356,000 as of 31 December 2016. 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 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 on 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 2016. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2016 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 2016.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The annual general meeting of the Company will be held in Hong Kong on 25 May 2017. 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 24 May 2017 to 25 May 2017 (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 23 May 2017.

## **PUBLICATION OF 2016 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is also published on the website of the Company ([www.huayu.com.hk](http://www.huayu.com.hk)), and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the 2016 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, 30 March 2017

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