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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 2017

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK\$74.7 million, representing a decrease of approximately 7.0% over the corresponding period last year.
- Gross profit for the Period was approximately HK\$48.1 million, representing an increase of approximately 8.4% over the corresponding period last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$3.4 million.
- Basic and diluted earnings per share for the Period amounted to HK0.82 cents.

The board (the “Board”) of directors (the “Directors”) of Huayu Expressway Group Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 (the “Period”), together with the comparative figures for the corresponding period in 2016. The interim financial report for the Period ended 30 June 2017 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 Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 – unaudited

	<i>Note</i>	Six months ended 30 June	
		2017	2016
		<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	3	74,711	80,332
Cost of sales		(26,652)	(36,011)
Gross profit		48,059	44,321
Other revenue		6	221
Other net income		847	357
Administrative expenses		(11,696)	(12,948)
Profit from operations		37,216	31,951
Finance costs	4(a)	(28,794)	(34,339)
Profit/(loss) before taxation	4	8,422	(2,388)
Income tax	5	(4,132)	(1,597)
Profit/(loss) for the period		4,290	(3,985)
Attributable to:			
Equity shareholders of the Company		3,392	(4,132)
Non-controlling interests		898	147
Profit/(loss) for the period		4,290	(3,985)
Earnings/(loss) per share (HK Cents)			
Basic and diluted	6	0.82	(1.00)

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2017 – unaudited

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	4,290	(3,985)
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>2,879</u>	<u>(1,835)</u>
Total comprehensive income for the period	<u>7,169</u>	<u>(5,820)</u>
Attributable to:		
Equity shareholders of the Company	5,990	(5,787)
Non-controlling interests	<u>1,179</u>	<u>(33)</u>
Total comprehensive income for the period	<u>7,169</u>	<u>(5,820)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2017 – unaudited*

		At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		14,548	14,068
Intangible asset – service concession arrangement		1,345,295	1,269,848
Deferred tax assets		121,864	122,319
Other non-current asset	7	3,090	–
		<u>1,484,797</u>	<u>1,406,235</u>
Current assets			
Trade and other receivables	7	19,149	6,039
Cash and cash equivalents		59,786	10,806
		<u>78,935</u>	<u>16,845</u>
Current liabilities			
Accruals and other payables	8	95,444	61,119
Bank loan		77,003	69,121
		<u>172,447</u>	<u>130,240</u>
Net current liabilities		<u>(93,512)</u>	<u>(113,395)</u>
Total assets less current liabilities		<u>1,391,285</u>	<u>1,292,840</u>
Non-current liabilities			
Bank loan		1,060,024	1,068,618
Amount due to the controlling shareholder of the Company		115,678	109,028
Amount due to a related company		199,957	106,737
		<u>1,375,659</u>	<u>1,284,383</u>
NET ASSETS		<u>15,626</u>	<u>8,457</u>
CAPITAL AND RESERVES			
Share capital		4,126	4,126
Reserves		1,662	(4,328)
Total equity attributable to equity shareholders of the Company		<u>5,788</u>	<u>(202)</u>
Non-controlling interests		<u>9,838</u>	<u>8,659</u>
TOTAL EQUITY		<u>15,626</u>	<u>8,457</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial information 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 31 August 2017.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial information 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 information 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 2016 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 financial information relating to the financial year ended 31 December 2016 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 2016 are available from the Company's registered office. In the auditors' report dated 30 March 2017, 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.

As of 30 June 2017, the Group had net current liabilities of \$93,512,000 and accumulated losses of \$669,964,000. The Group is dependent upon the financial support from its bankers, its 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 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 generate positive operating cash flows for the next twelve months;
- ii the controlling shareholder of the Company has undertaken that repayment of advances of \$115,678,000 and advance from a related party of \$199,957,000 at 30 June 2017 will not be requested until after 31 December 2018 and only if the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time; and
- iii 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, a related company under the control of the controlling shareholder has advanced RMB33,000,000 to the Group in August 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 interim financial information has been prepared on a going concern basis. The interim financial information 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information.

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	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Toll income	66,303	60,691
Rental revenue	8,408	19,641
	74,711	80,332

4 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended 30 June	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank loans	<u>28,794</u>	<u>34,339</u>
(b) Staff costs:		
Salaries, wages and other benefits	8,537	7,305
Contributions to defined contribution retirement plans	<u>1,497</u>	<u>1,700</u>
	<u>10,034</u>	<u>9,005</u>
(c) Other items:		
Depreciation	1,395	2,909
Amortisation	16,280	24,579
Operating lease charges in respect of rental of office premises	<u>587</u>	<u>107</u>

5 INCOME TAX

	Six months ended 30 June	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deferred tax		
Origination and reversal of temporary differences	<u>(4,132)</u>	<u>(1,597)</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 2017 and 2016.		
(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% (2016: 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 EARNINGS/(LOSS) PER SHARE

(a) Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company for the period of \$3,392,000 (six months ended 30 June 2016: loss of \$4,132,000) and the weighted average number of 412,608,000 (2016: 412,608,000) shares in issue during the interim period.

(b) Diluted earnings/(loss) per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2017 and 2016, therefore, diluted earnings/(loss) per share is equivalent to basic earnings/(loss) per share.

7 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Within 1 month	12,002	4,427
Over 1 month	8,771	–
Less: Other non-current asset	<u>(3,090)</u>	<u>–</u>
Trade receivables	17,683	4,427
Prepayments	580	770
Other receivables	<u>886</u>	<u>842</u>
	<u>19,149</u>	<u>6,039</u>

8 ACCRUALS AND OTHER PAYABLES

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Construction payables	73,510	47,179
Advances received	9,872	–
Accruals	<u>12,062</u>	<u>13,940</u>
	<u>95,444</u>	<u>61,119</u>

Included in accruals and other payables as at 30 June 2017 are contract retention deposits payable to independent contractors of \$16,100,000 (2016: \$20,849,000), construction fees payables of \$57,410,000 (2016: \$26,330,000) and advances received of \$9,872,000 (2016: Nil). At 30 June 2017, all of the accruals and other payables are expected to be settled or recognised as income within one year (2016: 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 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded revenue of approximately HK\$74.7 million, decreased by about 7.0% from the corresponding period last year of approximately HK\$80.3 million. The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$66.3 million, increased by 9.2% from about HK\$60.7 million of the corresponding period in 2016. For the Period, continuous improvement in the highway network system within the districts around the Expressway induced significant amount of traffic to the Expressway. The average traffic flow of the Expressway was about 554,000 vehicles per month and had a steady growth over the years.

In addition to the toll revenue, the Group also had approximately HK\$8.4 million of rental income from the leasing of the service area along the Expressway. The amount decreased from the corresponding period in 2016 was mainly because of the change of terms in the new rental arrangement.

Costs and gross profit

Costs and gross profit of the Group were approximately HK\$26.7 million and HK\$48.1 million for the Period respectively as compared to the corresponding period last year of approximately HK\$36.0 million and HK\$44.3 million respectively. The costs incurred by the Group were mainly from the staff costs and the amortisation of the concession right of the Expressway. Due to the change of accounting estimate about the future traffic volume and the unit amortisation of the concession right in 2016, the corresponding amortisation of the concession right decreased during the Period. As a result, the costs of the Group decreased by approximately 26.0% and the gross profit for the Period increased by about 8.4% from the corresponding period last year.

Other revenue

Other revenue of the Group was approximately HK\$6,000 (2016: HK\$221,000) for the Period. It mainly represented the interest income generated from bank deposits.

Other net income

The Group recorded other net income of approximately HK\$847,000 (2016: HK\$357,000) 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\$11.7 million, decreased by about 9.7% from approximately HK\$12.9 million for the corresponding period in 2016. The Group's administrative expenses incurred were mainly from salary and wages.

Finance costs

Finance costs of the Group for the Period were approximately HK\$28.8 million, decreased by about 16.1% from the corresponding period last year of approximately HK\$34.3 million. During the Period, the partial repayment of bank loan and the decrease in interest rate in the PRC contributed to the reduction of the finance costs.

Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company for the Period was approximately HK\$3.4 million. The loss attributable to equity shareholders of the Company was about HK\$4.1 million for the corresponding period in 2016. The profit for the Period was mainly due to the increase in the toll revenue and the substantial decrease in the cost of amortisation of the concession right of the Expressway during the Period.

Liquidity and financial resources

During the Period, the Group financed its operations and capital expenditures with internal resources of the Company, loans from the controlling shareholder and long term bank loans. As at 30 June 2017, total bank loans drawn by the Group amounted to about HK\$1,137.0 million (as at 31 December 2016: HK\$1,137.7 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to HK\$59.8 million (as at 31 December 2016: HK\$10.8 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 in future development. As at 30 June 2017, total banking facilities of the Group amounted to HK\$1,267.4 million from China Merchants Bank, which were mainly for the settlement of the construction costs of the Expressway. The ratio of total outstanding bank loans to total equity was 72.77 (as at 31 December 2016: 134.53).

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 2017, the Group employed a total of 255 (as at 31 December 2016: 272) 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\$10.0 million (2016: HK\$9.0 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 2017, 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 arises.

PLEDGE OF ASSETS

As at 30 June 2017, the bank loans of HK\$1,137.0 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)

Due to the improvement in the highway network system in the districts along the Expressway, there was a significant increase in the traffic flow in the Expressway during the Period, from about 456,000 vehicles per month for the six months ended 30 June 2016 to about 554,000 vehicles per month for the Period. As a result, the total toll revenue recorded an increase of about 9.2% to approximately HK\$66.3 million for the Period.

However, the continuous specific traffic restrictions in Hunan Province imposed on vehicles, including higher toll rate to be imposed against the truck on the overweight load and higher penalty against traffic violations, adversely affected our average toll per vehicle under the toll-by-weight charging system. Moreover, the new traffic flow induced by the Hang-rui Expressway Hunan Section was mainly passenger cars whose toll per vehicle were lower than that of the goods vehicle. The average toll revenue per vehicle decreased from about HK\$22.2 for the six months ended 30 June 2016 to about HK\$19.9 for the Period. Irrespective of the above, the management are confident with the prospect of the Expressway with the continuous growth in the traffic flow.

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

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 new connection to the adjacent expressways in the coming years, the management of the Company are confident of the prospect of the 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 Expressway to the whole expressway network of Hunan province and induced new traffic to the 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 Expressway. It is also expected that both of the new adjacent expressways aforesaid will introduce significant positive impact to the Expressway in the coming few years.

As the Directors are experienced in completing other PRC toll-expressway projects successfully 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 partial-completed 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 interim financial report for the Period ended 30 June 2017 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 Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

KPMG expressed an unmodified conclusion with an emphasis of matter paragraph in its report. An extract of KPMG’s conclusion is set out below:

“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 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which indicates that the Group had net current liabilities of HK\$93,512,000 and accumulated losses of HK\$669,964,000 as of 30 June 2017. 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 2017 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, 31 August 2017

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.