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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 2017

The board (the “Board”) of directors (the “Directors”) 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 2017, together with comparative figures for the preceding year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

| | <i>Note</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|-------------|--------------------------------|------------------|
| Revenue | 4 | 166,928 | 138,972 |
| Cost of sales | | <u>(62,056)</u> | <u>(49,220)</u> |
| Gross profit | | 104,872 | 89,752 |
| Other revenue | 5 | 411 | 387 |
| Other net income/(loss) | 5 | 2,057 | (445) |
| Administrative expenses | | <u>(23,448)</u> | <u>(27,063)</u> |
| Profit from operations | | 83,892 | 62,631 |
| Finance costs | 6(a) | <u>(59,802)</u> | <u>(64,491)</u> |
| Profit/(loss) before taxation | 6 | 24,090 | (1,860) |
| Income tax | 7 | <u>(5,438)</u> | <u>(8,351)</u> |
| Profit/(loss) for the year | | <u>18,652</u> | <u>(10,211)</u> |
| Attributable to: | | | |
| Equity shareholders of the Company | | 15,845 | (10,477) |
| Non-controlling interests | | <u>2,807</u> | <u>266</u> |
| Profit/(loss) for the year | | <u>18,652</u> | <u>(10,211)</u> |
| Earnings/(loss) per share (HK cents) | | | |
| Basic and diluted | 9 | <u>3.84</u> | <u>(2.54)</u> |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit/(loss) for the year | 18,652 | (10,211) |
| Other comprehensive income for the year | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of: | | |
| – financial statements of subsidiaries outside Hong Kong | <u>7,182</u> | <u>(5,935)</u> |
| Total comprehensive income for the year | <u>25,834</u> | <u>(16,146)</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 22,322 | (15,831) |
| Non-controlling interests | <u>3,512</u> | <u>(315)</u> |
| Total comprehensive income for the year | <u>25,834</u> | <u>(16,146)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | <i>Note</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 13,376 | 14,068 |
| Intangible asset – service concession arrangement | | 1,419,122 | 1,269,848 |
| Deferred tax assets | | 125,270 | 122,319 |
| | | <u>1,557,768</u> | <u>1,406,235</u> |
| Current assets | | | |
| Prepayments and other receivables | 10 | 21,921 | 6,039 |
| Cash at bank and on hand | | 30,524 | 10,806 |
| | | <u>52,445</u> | <u>16,845</u> |
| Current liabilities | | | |
| Accruals and other payables | 11 | 131,033 | 61,119 |
| Bank loan | | 78,855 | 69,121 |
| | | <u>209,888</u> | <u>130,240</u> |
| Net current liabilities | | <u>(157,443)</u> | <u>(113,395)</u> |
| Total assets less current liabilities | | <u>1,400,325</u> | <u>1,292,840</u> |
| Non-current liabilities | | | |
| Bank loan | | 1,064,707 | 1,068,618 |
| Amount due to the controlling shareholder of the Company | | 121,328 | 109,028 |
| Amount due to a related company | | 179,999 | 106,737 |
| | | <u>1,366,034</u> | <u>1,284,383</u> |
| NET ASSETS | | <u>34,291</u> | <u>8,457</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 4,126 | 4,126 |
| Reserves | | 17,994 | (4,328) |
| Total equity attributable to equity shareholders of the Company | | <u>22,120</u> | <u>(202)</u> |
| Non-controlling interests | | 12,171 | 8,659 |
| TOTAL EQUITY | | <u>34,291</u> | <u>8,457</u> |

NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

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 Group is 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. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2017 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.

As at 31 December 2017, the Group had net current liabilities of HK\$157,443,000 (2016: HK\$113,395,000) and accumulated losses of HK\$657,511,000 (2016: HK\$673,356,000). The Group is dependent upon the financial support from Group's bankers and the controlling shareholder, and its ability to generate sufficient cash flows from future operations to cover its operating costs and 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 repayment 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 HK\$121,328,000 at 31 December 2017 and advance from a related party of HK\$179,999,000 at 31 December 2017 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 PRC for raising funds from new banking facilities, which have not yet been determined; and
- (iv) the controlling shareholder has confirmed 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 twelve months from the end of the reporting period. In this regard, the controlling shareholder and a related party have advanced HK\$25,000,000 and RMB20,000,000 respectively to the Group in March 2018. 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 allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

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

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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 the service zone. The amount of each significant category of revenue recognised in revenue during the year is as follows:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| Toll income | 166,928 | 119,665 |
| Rental income | — | 19,307 |
| | 166,928 | 138,972 |

5. OTHER REVENUE AND NET INCOME/(LOSS)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Other revenue | | |
| Billboard rental income | 315 | 365 |
| Interest income from bank deposits | 96 | 22 |
| | <u>411</u> | <u>387</u> |
| Other net income/loss | | |
| Net foreign exchange gain/(loss) | 1,914 | (1,690) |
| Others | 143 | 1,245 |
| | <u>2,057</u> | <u>(445)</u> |

6. PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------|-------------------------|-------------------------|
| Interest on bank loans | <u>59,802</u> | <u>64,491</u> |

There is no borrowing costs capitalised for the year ended 31 December 2017 (2016: Nil).

(b) Staff costs

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Salaries, wages and other benefits | 17,825 | 18,390 |
| Contributions to defined contribution retirement plans | 2,929 | 3,278 |
| | <u>20,754</u> | <u>21,668</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**

| | 2017 | 2016 |
|---|------------------------|-----------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Auditors’ remuneration | | |
| – Audit and review services | 2,451 | 2,429 |
| – Other services | 322 | 427 |
| Depreciation | 2,656 | 5,501 |
| Amortisation | 37,082 | 24,774 |
| Operating lease charges in respect of rental of office premises | 1,312 | 1,521 |

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

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

| | 2017 | 2016 |
|---|------------------------|-----------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Deferred tax | | |
| Reversal and origination of temporary differences | 5,438 | 8,351 |

- (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 2017 and 2016.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the Company’s subsidiary in the PRC is subject 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 used its accumulated tax losses carried from previous years. 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 profit/(loss) at applicable tax rates:**

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit/(loss) before taxation | <u>24,090</u> | <u>(1,860)</u> |
| Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned | 7,550 | 1,965 |
| Tax effect on tax losses not recognised | 827 | 5,678 |
| Tax effect on deductible temporary differences not recognised | 91 | 681 |
| Tax effect of non-deductible expenses | 39 | 27 |
| Use of tax losses carried from previous years | <u>(3,069)</u> | <u>–</u> |
| Income tax | <u>5,438</u> | <u>8,351</u> |

8. DIVIDENDS

The Directors do not recommend the declaration of any final dividend for the year ended 31 December 2017 (2016: Nil).

9. EARNINGS/(LOSS) PER SHARE

(a) **Basic earnings/(loss) per share**

| | 2017 <i>'000</i> | 2016 <i>'000</i> |
|---|---------------------|---------------------|
| Issued ordinary shares at 1 January | <u>412,608</u> | <u>412,608</u> |
| Weighted average number of ordinary shares at 31 December | <u>412,608</u> | <u>412,608</u> |

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of HK\$15,845,000 (2016: loss of HK\$10,477,000) and the weighted average number of 412,608,000 (2016: 412,608,000) shares in issue during the year.

(b) **Diluted earnings/(loss) per share**

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings/(loss) per share is equivalent to basic earnings/(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 2017 are contract retention deposits payable to independent contractors of HK\$126,000 (2016: HK\$20,849,000) and construction fees payables of HK\$101,379,000 (2016: HK\$26,330,000). All of the accruals and other payables are expected to be settled or recognised as income within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

With the significant traffic introduced by the new adjacent expressways, total toll revenue increased substantially during the year ended 31 December 2017. The Group reported a profit for the year of about HK\$18.7 million.

TURNOVER

For the year ended 31 December 2017, the Group recorded a turnover of approximately HK\$166.9 million, increased by 20.1% from that for the year ended 31 December 2016 of approximately HK\$139.0 million. Total amount of toll fee revenue of the Expressway was about HK\$166.9 million, increased substantially by 39.5% from about HK\$119.7 million for the year ended 31 December 2016. Average traffic of the Expressway was about 576,000 vehicles per month, increased by 32.1% from about 436,000 vehicles per month for the year ended 31 December 2016. Average toll per vehicle increased by about 5.7% from about HK\$22.9 per vehicle for the year ended 31 December 2016 to about HK\$24.2 per vehicle for the year ended 31 December 2017.

During the year, continuous improvement in the highway network system within the districts around the Expressway induced significant amount of traffic to the Expressway. 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. Since the maintenance work of the Wuhan Junshan Bridge “武漢軍山大橋” prohibited trucks using it to cross the Yangtze River, large number of trucks are introduced to the Expressway from August 2017. As a result, both the portion of truck traffic to passenger cars during the year and the average toll per vehicle of the Expressway increased.

GROSS PROFIT

The Group had a gross profit of HK\$104.9 million for the year ended 31 December 2017, increased by 16.8% from about HK\$89.8 million for the year ended 31 December 2016. The increase in gross profit was mainly due to the growth in toll revenue during the year.

The gross profit ratios were about 62.8% and 64.6% for the year ended 31 December 2017 and 2016 respectively.

OTHER REVENUE AND OTHER NET INCOME/(LOSS)

The Group recorded other revenue of approximately HK\$0.4 million for both of the years ended 31 December 2017 and 2016. In addition, the other net income was about HK\$2.1 million for the year ended 31 December 2017 while the other net loss for the year ended 31 December 2016 was about HK\$0.4 million. Other revenue of the Group was mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net income/(loss) mainly represented the exchange gain/(loss) recorded during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2017 was approximately HK\$23.4 million, decreased by 13.4 % from approximately HK\$27.1 million for the year ended 31 December 2016. The decrease was mainly because of the saving in the staff cost and the decrease in the depreciation charges for the property, plant and equipment.

FINANCE COSTS

For the year ended 31 December 2017, the finance costs of the Group was about HK\$59.8 million, decreased by 7.3% from approximately HK\$64.5 million for the year ended 31 December 2016. The decrease was mainly due to the partial repayment of the bank loan.

PROFIT/(LOSS) FOR THE YEAR

With the increase in the toll revenue and the saving in the interest cost, the Group recorded a profit for the year of approximately HK\$18.7 million for the year ended 31 December 2017 compared to the loss of approximately HK\$10.2 million for the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2017, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loan and interest free loans from the controlling shareholder of the Company. As at 31 December 2017, total bank loans drawn by the Group were about HK\$1,143.6 million (2016: HK\$1,137.7 million), the amount due to the controlling shareholder of the Company was HK\$121.3 million (2016: HK\$109.0 million), the amount due to a related company was HK\$180.0 million (2016: HK\$106.7 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK\$30.5 million (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 for future development. As at 31 December 2017, total available banking facilities of the Group amounted to HK\$1,315.9 million from China Merchants Bank, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was HK\$1,143.6 million (2016: HK\$1,137.7 million). The ratio of outstanding bank loans to total equity was 3,334.9% (2016: 13,453.2%).

As at 31 December 2017, the bank loan was repayable as follows:

| | 2017 | 2016 |
|----------------------------------|-------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 1 year or on demand | 78,855 | 69,121 |
| After 1 year but within 2 years | 83,741 | 73,687 |
| After 2 years but within 5 years | 323,001 | 268,296 |
| After 5 years | 657,965 | 726,635 |
| | <u>1,143,562</u> | <u>1,137,739</u> |

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2017, 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 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 arise.

PLEDGE OF ASSETS

As at 31 December 2017, the bank loans of HK\$1,143.6 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Expressway.

CAPITAL COMMITMENTS

As at 31 December 2017, there was no material capital commitment outstanding for the Company.

BUSINESS REVIEW

The 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 year ended 31 December 2017, from about 436,000 vehicles per month for the year ended 31 December 2016 to about 576,000 vehicles per month for the year ended 31 December 2017. Opened to traffic in late 2016, Hang-Rui Expressway (Hunan Section) “杭瑞高速(湖南段)” connected the Expressway to the whole expressway network of Hunan province and induced new traffic to the Expressway. In addition, the maintenance work in the adjacent bridge over Yangtze River in Wuhan induced substantial truck traffic to the Expressway from the middle of the year. As a result, the total toll revenue recorded an increase of about 20.1% to approximately HK\$166.9 million for the year.

Employees and emoluments

As at 31 December 2017, the Group employed a total of 269 (2016: 272) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2017, the Group's total expenses on the remuneration of employees were approximately HK\$20.8 million (2016: HK\$21.7 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 (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 optimise 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 2017.

PROSPECTS

The Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the new connection to the adjacent expressways in the coming years, the management of the Company are full of confidence about the prospect of the Expressway.

Opening to traffic in 2018, Yue-Wang Expressway “岳望高速” is the southern extension of the Expressway and will complete the whole vertical corridor to bring new long-distance traffic on the Expressway. These new expressways will introduce significant positive impact to the Expressway in the coming few years.

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

In accordance with this strategy, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so. 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2017.

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 2017.

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 2017, 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 2017.

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 2017 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 had net current liabilities of HK\$157,443,000 and accumulated losses of HK\$657,511,000 as of 31 December 2017. 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 2017. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2017 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 2017.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 1 June 2018. 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 29 May 2018 to 1 June 2018 (both days inclusive), during such period no transfer of the shares of the Company (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, Hong Kong, no later than 4:30 p.m. on 28 May 2018.

PUBLICATION OF 2017 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is also published on the website of the Company (www.huayu.com.hk), and the website of the Stock Exchange (www.hkexnews.hk) and the 2017 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, 23 March 2018

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