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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 2018**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the Period was approximately HK\$104.8 million, representing an increase of approximately 40.2% over the corresponding period last year.
- Gross profit for the Period was approximately HK\$67.7 million, representing an increase of approximately 40.9% over the corresponding period last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$19.5 million, representing an increase of approximately 473.8% over the corresponding period last year.
- Basic and diluted earnings per share for the Period amounted to HK\$4.72 cents, representing an increase of approximately 475.6% over the corresponding period last year.

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 (collectively, the “Group”) for the six months ended 30 June 2018 (the “Period”), together with the comparative figures for the corresponding period in 2017. The interim financial report for the Period 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 with a Material Uncertainty Related to Going Concern section is included in the interim report to be sent to shareholders.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>	3	<b>104,775</b>	74,711
Cost of sales		<u>(37,045)</u>	<u>(26,652)</u>
<b>Gross profit</b>		<b>67,730</b>	48,059
Other revenue		<b>341</b>	6
Other net (loss)/income		<b>(49)</b>	847
Administrative expenses		<u>(12,651)</u>	<u>(11,696)</u>
<b>Profit from operations</b>		<b>55,371</b>	37,216
Finance costs	4(a)	<u>(29,059)</u>	<u>(28,794)</u>
<b>Profit before taxation</b>	4	<b>26,312</b>	8,422
Income tax	5	<u>(4,320)</u>	<u>(4,132)</u>
<b>Profit for the period</b>		<u><b>21,992</b></u>	<u>4,290</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>19,462</b>	3,392
Non-controlling interests		<u><b>2,530</b></u>	<u>898</u>
<b>Profit for the period</b>		<u><b>21,992</b></u>	<u>4,290</u>
<b>Earnings per share (HK Cents)</b>			
Basic and diluted	6	<u><b>4.72</b></u>	<u>0.82</u>

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

*For the six months ended 30 June 2018 – unaudited*

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Profit for the period</b>	<b>21,992</b>	4,290
<b>Other comprehensive income for the period:</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– Financial statements of subsidiaries outside Hong Kong	<u>(1,908)</u>	<u>2,879</u>
<b>Total comprehensive income for the period</b>	<b><u>20,084</u></b>	<b><u>7,169</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>17,743</b>	5,990
Non-controlling interests	<u>2,341</u>	<u>1,179</u>
<b>Total comprehensive income for the period</b>	<b><u>20,084</u></b>	<b><u>7,169</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 – unaudited

		At 30 June 2018 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		12,405	13,376
Intangible asset – service concession arrangement		1,377,647	1,419,122
Deferred tax assets		120,028	125,270
		<u>1,510,080</u>	<u>1,557,768</u>
<b>Current assets</b>			
Trade and other receivables	7	28,932	21,921
Cash and cash equivalents		43,483	30,524
		<u>72,415</u>	<u>52,445</u>
<b>Current liabilities</b>			
Accruals and other payables	8	122,892	131,033
Amount due to a related company		147	–
Bank loan		77,097	78,855
		<u>200,136</u>	<u>209,888</u>
<b>Net current liabilities</b>		<u>(127,721)</u>	<u>(157,443)</u>
<b>Total assets less current liabilities</b>		<u>1,382,359</u>	<u>1,400,325</u>
<b>Non-current liabilities</b>			
Bank loan		1,014,116	1,064,707
Amount due to the controlling shareholder of the Company		125,829	121,328
Amount due to a related company		188,039	179,999
		<u>1,327,984</u>	<u>1,366,034</u>
<b>NET ASSETS</b>		<u>54,375</u>	<u>34,291</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		4,126	4,126
Reserves		35,737	17,994
<b>Total equity attributable to equity shareholders of the Company</b>		<u>39,863</u>	<u>22,120</u>
<b>Non-controlling interests</b>		<u>14,512</u>	<u>12,171</u>
<b>TOTAL EQUITY</b>		<u>54,375</u>	<u>34,291</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 24 August 2018.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 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 2017 that is included in the interim financial information 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 2017 are available from the Company's registered office. In the auditors' report dated 23 March 2018, the auditors expressed an unqualified opinion on those financial statements but drew 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 2018, the Group had net current liabilities of HK\$127,721,000 and accumulated losses of HK\$638,049,000. 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 HK\$125,829,000 and advance from a related party of HK\$188,039,000 at 30 June 2018 will not be requested until after 31 December 2019 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.

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

### (a) Overview

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

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

None of these developments has 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 report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to measurement of credit losses. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. There is no opening balance adjustments recognised for the consolidated statement of financial position that has been impacted by HKFRS 9.

**(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation***

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

**(i) *Credit losses***

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39. The Group applies the new ECL models on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and
- lease receivables.

Financial assets measured at fair value are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

**(ii) Transition**

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

**(c) HKFRS 15, *Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of HKFRS 15 does not have any material impact on the financial position and the financial result of the Group.

**(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration***

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

### 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	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Toll income	104,775	66,303
Rental revenue	–	8,408
	<u>104,775</u>	<u>74,711</u>

### 4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank loan	<u>29,059</u>	<u>28,794</u>
(b) Staff costs:		
Salaries, wages and other benefits	9,204	8,537
Contributions to defined contribution retirement plans	<u>1,854</u>	<u>1,497</u>
	<u>11,058</u>	<u>10,034</u>
(c) Other items:		
Depreciation	1,323	1,395
Amortisation	24,764	16,280
Operating lease charges in respect of rental of office premises	<u>871</u>	<u>587</u>

## 5 INCOME TAX

### Six months ended 30 June

	2018	2017
	HK\$'000	HK\$'000

#### Deferred tax

Origination and reversal of temporary differences	<u>(4,320)</u>	<u>(4,132)</u>
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- (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 2018 and 2017.
- (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% (2017: 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 PER SHARE

### (a) Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company for the period of HK\$19,462,000 (six months ended 30 June 2017: HK\$3,392,000) and the weighted average number of 412,608,000 (2017: 412,608,000) shares in issue during the interim period.

### (b) Diluted earnings per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2018 and 2017, therefore, diluted earnings per share is equivalent to basic earnings per share.

## 7 TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Trade receivables	16,667	20,283
Prepayments	11,290	763
Other receivables	975	875
	<u>28,932</u>	<u>21,921</u>

Trade receivables represent toll revenue receivables from toll road operation. At 30 June 2018, all of trade receivables are recognised within one month and the settlement period of the toll revenue receivables is normally within a month due to the implementation of unified toll collection policy on the Sui-yue Expressway (Hunan Section).

There was no recent history of default in respect of the Group's debtor. Since the debtor is a local government authority in the PRC and based on past experience, management believes that no impairment allowance is necessary in respect of the trade receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable. No impairment loss was recognised by the Group at 30 June 2018 (2017: Nil).

## 8 ACCRUALS AND OTHER PAYABLES

	At 30 June 2018 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Construction payables	82,671	101,505
Advances received	29,912	16,182
Accruals	8,818	11,631
Interest payable	1,491	1,715
	<u>122,892</u>	<u>131,033</u>

Included in accruals and other payables as at 30 June 2018 are contract retention deposits payable to independent contractors of HK\$125,000 (2017: HK\$126,000), and construction fees payables of HK\$82,546,000 (2017: HK\$101,379,000). At 30 June 2018, all of the accruals and other payables are expected to be settled or recognised as income within one year (2017: 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 (2017: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Revenue**

For the Period, the Group recorded revenue of approximately HK\$104.8 million, increased by about 40.2% from the corresponding period last year of approximately HK\$74.7 million. The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$104.8 million, increased by 58.0% from about HK\$66.3 million of the corresponding period in 2017. 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 774,000 vehicles per month representing a 39.7% increase from the corresponding period last year.

#### **Cost and gross profit**

Cost and gross profit of the Group were approximately HK\$37.0 million and HK\$67.7 million for the Period respectively as compared to the corresponding period last year of approximately HK\$26.7 million and HK\$48.1 million respectively. The cost of the Group was mainly the amortisation of the concession right of the Expressway, and which will be increased in the same proportion of the toll revenue. As a result, the cost of the Group increased by approximately 39.0% and the gross profit for the Period increased by about 40.9% from the corresponding period last year.

#### **Other revenue**

Other revenue of the Group was approximately HK\$341,000 (2017: approximately HK\$6,000) for the Period. It mainly represented the rental income from billboard along the Expressway and the interest income generated from bank deposits.

#### **Other net (loss)/income**

The Group recorded other net loss of approximately HK\$49,000 (2017 other net income: approximately HK\$847,000) for the Period due to the exchange difference incurred during the Period.

#### **Administrative expenses**

Administrative expenses of the Group for the Period were approximately HK\$12.7 million, increased by about 8.2% from approximately HK\$11.7 million for the corresponding period in 2017. The administrative expenses for the Group were mainly salaries and wages.

## **Finance costs**

Finance costs of the Group for the Period were approximately HK\$29.1 million, increased by about 0.9% from the corresponding period last year of approximately HK\$28.8 million.

## **Profit attributable to equity shareholders of the Company**

The profit attributable to equity shareholders of the Company for the Period was approximately HK\$19.5 million, increased significantly by 473.8% from the corresponding period last year of approximately HK\$3.4 million. The growth in the profit was mainly due to the significant increase in the toll revenue 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, finance from the controlling shareholder and long term bank loan. As at 30 June 2018, total bank loan drawn by the Group amounted to about HK\$1,091.2 million (as at 31 December 2017: approximately HK\$1,143.6 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$43.5 million (as at 31 December 2017: approximately HK\$30.5 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 2018, total banking facilities of the Group amounted to approximately HK\$1,304.7 million from China Merchants Bank, which were mainly for the settlement of construction costs of the Expressway. The ratio of total outstanding bank loan to total equity was 20.06 (as at 31 December 2017: 33.34).

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 arise.

## **Employees and emoluments**

As at 30 June 2018, the Group employed a total of 241 (as at 31 December 2017: 269) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the Period, the Group's total expenses on the remuneration of employees were approximately HK\$11.1 million (2017: approximately HK\$10.0 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 2018, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

## **PLEDGE OF ASSETS**

As at 30 June 2018, the bank loan of approximately HK\$1,091.2 million from China Merchants Bank was secured by a pledge of the toll collection right owned by 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 554,000 vehicles per month for the six months ended 30 June 2017 to about 774,000 vehicles per month. Opened to traffic in the Period, Yue-Wang Expressway “岳望高速” is the southern extension of the Expressway and completed the whole vertical corridor to bring new long-distance traffic on the Expressway. This new expressway introduced significant positive impact on the traffic volume of the Expressway. Due to the maintenance work of the Wuhan Junshan Bridge “武漢軍山大橋”, trucks were prohibited from using it to cross the Yangtze River from August 2017, large number of trucks are induced to the Expressway. The average toll revenue per vehicle increased from about HK\$19.9 for the six months ended 30 June 2017 to about HK\$22.6 for the Period. As a result, the total toll revenue recorded an increase of about 58.0% to approximately HK\$104.8 million for the Period. With the continuous growth in the traffic flow, the management are confident with the prospect of the Expressway.

### **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.

With the completion of the Hang-Rui Expressway Hunan Section “杭瑞高速(湖南段)”, which connected the Expressway to the whole expressway network of Hunan province, and the Yue-Wang Expressway “岳望高速”, which is the southern extension of the Expressway and completed the whole vertical transport corridor in Hunan Province, a significant new traffic was induced to the Expressway during the Period. It is also expected that both of these new adjacent expressways aforesaid will induce significant positive impact on the traffic volume of the Expressway in the coming few years.

As the Directors are experienced in successfully completing other PRC toll-expressway projects and have the established networks 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 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 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 has not been audited, 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 a Material Uncertainty Related to Going Concern section 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 2018 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\$127,721,000 and accumulated losses of HK\$638,049,000 as of 30 June 2018. 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 (the "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](http://www.hkexnews.hk)) and the Company ([www.huayu.com.hk](http://www.huayu.com.hk)), and the 2018 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, 24 August 2018

*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 four independent non-executive Directors, namely, Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Zou Ying.*