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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 2015

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2015 (the “Period”) was approximately HK\$97.6 million, representing an increase of approximately 8.0% over the corresponding period last year.
- Gross profit for the Period was approximately HK\$59.2 million, representing an increase of approximately 3.8% over the corresponding period last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$2.3 million.
- Basic and diluted profit per share for the Period amounted to HK0.56 cents.

The board (the “Board”) of directors (the “Directors”) of Huayu Expressway Group Limited (the “Company”) hereby announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015, together with the comparative figures for the corresponding period in 2014. The interim financial report for the six months ended 30 June 2015 has not been audited, but have been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the auditors of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015 – unaudited

	Note	Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000
Revenue	3	97,645	90,389
Cost of sales		<u>(38,413)</u>	<u>(33,333)</u>
Gross profit		59,232	57,056
Other revenue		91	232
Other net income/(loss)		443	(6,065)
Administrative expenses		<u>(11,749)</u>	<u>(13,541)</u>
Profit from operations		48,017	37,682
Finance costs		<u>(43,828)</u>	<u>(43,042)</u>
Profit/(loss) before taxation	4	4,189	(5,360)
Income tax	5	<u>(1,180)</u>	<u>(1,052)</u>
Profit/(loss) for the period		<u>3,009</u>	<u>(6,412)</u>
Attributable to:			
Equity shareholders of the Company		2,296	(6,270)
Non-controlling interests		<u>713</u>	<u>(142)</u>
Profit/(loss) for the period		<u>3,009</u>	<u>(6,412)</u>
Profit/(loss) per share (HK Cents)			
Basic and diluted	6	<u>0.56</u>	<u>(1.52)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – unaudited

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit/(loss) for the period	3,009	(6,412)
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>131</u>	<u>(2,736)</u>
Total comprehensive income for the period	<u>3,140</u>	<u>(9,148)</u>
Attributable to:		
Equity shareholders of the Company	2,414	(8,735)
Non-controlling interests	<u>726</u>	<u>(413)</u>
Total comprehensive income for the period	<u>3,140</u>	<u>(9,148)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2015 – unaudited*

	<i>Note</i>	At 30 June 2015 <i>HK\$'000</i>	At 31 December 2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		18,526	19,117
Intangible asset – service concession arrangement		1,639,447	1,647,557
Deferred tax assets		148,756	149,880
		<u>1,806,729</u>	<u>1,816,554</u>
Current assets			
Prepayments and other receivables		5,346	16,343
Cash and cash equivalents		15,203	14,129
		<u>20,549</u>	<u>30,472</u>
Current liabilities			
Accruals and other payables	7	140,884	144,727
Amount due to a related company		15,101	18,743
Bank loans		624,507	625,408
		<u>780,492</u>	<u>788,878</u>
Net current liabilities		<u>(759,943)</u>	<u>(758,406)</u>
Total assets less current liabilities		<u>1,046,786</u>	<u>1,058,148</u>
Non-current liabilities			
Bank loan		708,404	730,416
Amount due to the controlling shareholder of the Company		95,089	87,579
		<u>803,493</u>	<u>817,995</u>
NET ASSETS		<u>243,293</u>	<u>240,153</u>
CAPITAL AND RESERVES			
Share capital		4,126	4,126
Reserves		209,074	206,660
Total equity attributable to equity shareholders of the company		213,200	210,786
Non-controlling interests		30,093	29,367
TOTAL EQUITY		<u>243,293</u>	<u>240,153</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

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

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as being previously reported 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 2014 are available from the Company's registered office. In the auditors' report dated 27 March 2015, 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.

At 30 June 2015, the Group's net current liabilities were HK\$759,943,000. The Group is dependent upon the financial support from the bankers and the controlling shareholder, and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments. These conditions continue to indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next twelve months and to meet its obligations, as and when they fall due, having regard to the following:

- i the Group expects to generate positive operating cash flows for the next twelve months;
- ii among the current liabilities, HK\$597,975,000 were bank loans from Wing Lung Bank falling due in October 2016 with payment on demand terms. The Group has secured a contractual right to draw down from a long-term secured bank loan facility from another bank should the loan be recalled on demand by the bank. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered in the following 12 months from 30 June 2015;
- iii advance receipt of HK\$34,239,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;
- iv the controlling shareholder of the Company has undertaken that repayment of advances of HK\$95,089,000 at 30 June 2015 will not be requested in the following 12 months; and
- v the Directors are confident that the Group will be able to obtain additional bank loan facilities as and when required.

Consequently, the financial statements have been prepared on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group's results and financial position. 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 zone. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Toll income	76,741	69,508
Rental revenue	20,904	20,881
	<u>97,645</u>	<u>90,389</u>

4 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
(A) Finance costs:		
Interest on bank loans	<u>43,828</u>	<u>43,042</u>
	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
(B) Staff costs:		
Salaries, wages and other benefits	10,984	9,175
Contributions to defined contribution retirement plans	<u>1,470</u>	<u>1,208</u>
	<u>12,454</u>	<u>10,383</u>
	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
(C) Other items:		
Depreciation	2,621	2,613
Amortisation	26,106	21,934
Operating lease charges in respect of rental of office premises	<u>–</u>	<u>372</u>

5 INCOME TAX

Six months ended 30 June

2015 2014

HK\$'000 HK\$'000

Deferred tax

Origination and reversal of temporary differences (1,180) (1,052)

- (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 2015 and 2014.
- (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% (2014: 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.

6 PROFIT/(LOSS) PER SHARE

(A) Basic profit/(loss) per share

The calculation of basic profit/(loss) per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company for the period of HK\$2,296,000 (six months ended 30 June 2014: loss of HK\$6,270,000) and the weighted average number of 412,608,000 (2014: 412,608,000) shares in issue during the interim period.

(B) Diluted profit/(loss) per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2015 and 2014, therefore, diluted profit/(loss) per share is equivalent to basic profit/(loss) per share.

7 ACCRUALS AND OTHER PAYABLES

	At 30 June 2015 HK\$'000	At 31 December 2014 HK\$'000
Construction costs payable	87,282	103,402
Advance received	34,239	22,183
Accruals	19,363	19,142
	<u>140,884</u>	<u>144,727</u>

Included in accruals and other payables as at 30 June 2015 are contract retention deposits payable to independent contractors of HK\$40,245,000 (2014: HK\$58,121,000), construction fees payables of HK\$46,973,000 (2014: HK\$44,918,000) and advance received of HK\$34,329,000 (2014: HK\$22,183,000). At 30 June 2015, all of the accruals and other payables are expected to be settled or recognised as income within one year (2014: all of 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 six months ended 30 June 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2015 (the “Period”), the Group recorded revenue of approximately HK\$97.6 million, increased by about 8.0% from the corresponding period last year of approximately HK\$90.4 million. The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$76.7 million, increased by 10.4% from about HK\$69.5 million of the corresponding period in 2014. For the Period, the average traffic flow of the Expressway was about 403,000 vehicles per month and had a steady growth over the years. In addition to the toll revenue, the Group also had approximately HK\$20.9 million of rental income from the leaseing of the service area along the Expressway.

Cost and gross profit

The cost and gross profit of the Group were approximately HK\$38.4 million and HK\$59.2 million for the Period respectively as compared to the corresponding period last year of approximately HK\$33.3 million and HK\$57.1 million respectively. The cost of the Group was mainly the staff cost and the amortization of the concession right of the Expressway. Due to the growth in the traffic flow, the corresponding amortization of the concession right increased during the Period. As a result, the cost of the Group increased by 15.2%. The gross profit for the Period increased by about 3.8% from the corresponding period last year.

Other net income/(loss)

The Group recorded other net income of approximately HK\$0.4 million compared to the other net loss of approximately HK\$6.1 million for the corresponding period last year. Other net income and loss mainly represented exchange difference.

Administrative expenses

Administrative expenses for the Period were approximately HK\$11.7 million which was decreased by about 13.2% from that of the period ended 30 June 2014. Most of the administrative expenses are salary and wages.

Finance costs

Finance costs of the Group for the Period was approximately HK\$43.8 million and nearly the same as compared to the corresponding period of last year.

Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company for the Period was approximately HK\$2.3 million. The loss attributable to equity shareholder of the Company was about HK\$6.3 million for the corresponding period in 2014. The loss in 2014 was mainly attributable to the exchange loss of HK\$6.1 million recorded in a PRC subsidiary of the Group from the unrealized foreign currency translation of a Hong Kong dollar bank loan as at 30 June 2014.

Liquidity and financial resources

During the six months ended 30 June 2015, the Group financed its operations and capital expenditures with internal resources of the Company and long term bank loans. As at 30 June 2015, total bank loans drawn by the Group amounted to about HK\$1,332.9 million (as at 31 December 2014: HK\$1,355.8 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to HK\$15.2 million (as at 31 December 2014: HK\$14.1 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2015, total banking facilities of the Group amounted to HK\$1,394.9 million from China Merchants Bank and Wing Lung Bank Limited, which were mainly for the construction costs of the Expressway, among which the outstanding secured bank loan was HK\$1,332.9 million (as at 31 December 2014: HK\$1,355.8 million). The ratio of total outstanding bank loans to equity attributable to shareholders was 625.2% (as at 31 December 2014: 643.2%).

The Group's borrowings were mainly arranged on a floating rate basis. During the six months ended 30 June 2015, 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 2015, the Group employed a total of 249 (as at 31 December 2014: 246) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the six months ended 30 June 2015, the Group's total expenses on the remuneration of employees were approximately HK\$12.5 million (2014: HK\$10.4 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 2015, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

PLEDGE OF ASSETS

As at 30 June 2015, the bank loans of HK\$1,332.9 million from China Merchants Bank and Wing Lung Bank were secured by a pledge of the toll collection right in relation to the Expressway.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

Average traffic flow per month of the Expressway has increased gradually during the Period. Total toll collected during the Period was about HK\$76.7 million. In addition, the Group recorded rental income of about HK\$20.9 million from leasing of the service area along the Expressway during the Period. With these significant amounts of income, the Directors are optimistic about the future prospects of the Expressway.

Future plans and prospects

With the experience of the Directors in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them within the PRC, the Group will continue to seize 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 will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider to acquire 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. In addition, we will consider developing any infrastructure-related businesses as such opportunity arises.

PURCHASE, SALE 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 six months ended 30 June 2015.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of the 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 six months ended 30 June 2015.

EXTRACT OF INDEPENDENT REVIEW REPORT

The following is the extract of the independent review report on the Group's interim financial information for the six months ended 30 June 2015 the external auditor of the Company, KPMG:

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which indicates that as of 30 June 2015, the Group's current liabilities exceed its current assets by approximately HK\$759,943,000. 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 of 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 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. 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 of the Company has met and discussed with the external auditor 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 six months ended 30 June 2015. The audit committee considered that the unaudited consolidated results of the Group for the six months ended 30 June 2015 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 2015 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, 21 August 2015

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.