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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 2011

The board of directors (the “Board”) of Huayu Expressway Group Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2011, together with comparative figures for the preceding year ended 31 December 2010, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------------|-------------|--------------------------------|-------------------------|
| Turnover | 4 | 1,124,650 | 537,631 |
| Cost | | <u>(1,099,807)</u> | <u>(525,803)</u> |
| Gross profit | | 24,843 | 11,828 |
| Other revenue | 5 | 342 | 1,944 |
| Other net loss | 5 | (374) | (955) |
| Administrative expenses | | (31,239) | (24,158) |
| Impairment loss of intangible assets | | <u>(275,464)</u> | <u>–</u> |
| Loss from operations | | (281,892) | (11,341) |
| Finance costs | | (320) | – |
| Subsidy income | | <u>–</u> | <u>20</u> |
| Loss before taxation | 6 | (282,212) | (11,321) |
| Income tax | 7 | <u>64,388</u> | <u>(314)</u> |
| Loss for the year | | <u>(217,824)</u> | <u>(11,635)</u> |
| Attributable to: | | | |
| Equity shareholders of the Company | | (197,800) | (12,069) |
| Non-controlling interests | | <u>(20,024)</u> | <u>434</u> |
| Loss for the year | | <u>(217,824)</u> | <u>(11,635)</u> |
| Loss per share (HK Cents) | | | |
| Basic and diluted | 9 | <u>(47.94)</u> | <u>(2.93)</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Loss for the year | (217,824) | (11,635) |
| Other comprehensive income for the year | | |
| Exchange differences on translation of financial statements of a subsidiary outside Hong Kong, net of nil tax | <u>31,526</u> | <u>15,324</u> |
| Total comprehensive income for the year | <u>(186,298)</u> | <u>3,689</u> |
| Attributable to: | | |
| Equity shareholders of the Company | (169,397) | 1,718 |
| Non-controlling interests | <u>(16,901)</u> | <u>1,971</u> |
| Total comprehensive income for the year | <u>(186,298)</u> | <u>3,689</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|----------------------------------------------------------------------------|-------------|-------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 2,367 | 1,845 |
| Intangible asset - service concession arrangement | | 1,936,165 | 1,007,258 |
| Deferred tax assets | | 66,341 | 1,967 |
| | | <u>2,004,873</u> | <u>1,011,070</u> |
| Current assets | | | |
| Prepayments and other receivables | 10 | 13,226 | 85,301 |
| Cash at bank and in hand | | 168,223 | 157,226 |
| | | <u>181,449</u> | <u>242,527</u> |
| Current liabilities | | | |
| Derivative financial instrument | | 335 | – |
| Accruals and other payables | 11 | 420,755 | 108,743 |
| Amount due to a related company | | 1,300 | 424 |
| Bank loan | | 584,712 | – |
| | | <u>1,007,102</u> | <u>109,167</u> |
| Net current (liabilities)/assets | | <u>(825,653)</u> | <u>133,360</u> |
| Total assets less current liabilities | | <u>1,179,220</u> | <u>1,144,430</u> |
| Non-current liabilities | | | |
| Bank loans | | 629,085 | 448,210 |
| Amount due to the controlling shareholder of the Company | | 37,683 | – |
| | | <u>666,768</u> | <u>448,210</u> |
| NET ASSETS | | <u>512,452</u> | <u>696,220</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 4,126 | 4,126 |
| Reserves | | 454,825 | 624,222 |
| TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY | | <u>458,951</u> | <u>628,348</u> |
| Non-controlling interests | | 53,501 | 67,872 |
| TOTAL EQUITY | | <u>512,452</u> | <u>696,220</u> |

NOTES TO THE FINANCIAL STATEMENT

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

Huayu Expressway Group Limited (“the Company”) was incorporated in the Cayman Islands on 21 April 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The company and its subsidiaries (together “the Group”) are principally engaged in the construction, operation and management of an expressway in the People’s Republic of China (“PRC”).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 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

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments.

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.

At 31 December 2011, the Group's net current liabilities were HK\$825,653,000. The Directors had made an assessment and concluded that the Group are able to continue as a going concern for the year ending 31 December 2012 and to meet their obligations, as and when they fall due, having regard to the following:

- i the Group expects to generate positive operating cash flows for the year ending 31 December 2012;
- ii based on the cash flow forecast, the Group expects to comply with bank covenants and meet scheduled repayment obligations in 2012 and does not consider it probable that the lender of the Group's long term loan repayable on demand of HK\$584,712,000 will exercise its discretion to demand repayment in 2012;
- iii the Group had unutilised bank facilities of HK\$127,765,000 at 31 December 2011;
- iv as at 31 December 2011, the Group's contract retention deposits of HK\$110,831,000 and advance receipt of HK\$112,249,000 were expected to be settled or recognised as income respectively after more than 1 year; and
- v the controlling shareholder of the Company undertakes that repayment of advances of HK\$37,682,000 at 31 December 2011 will not be requested in the year ending 31 December 2012.

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

(c) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocation resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

The impacts of the above developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4. TURNOVER

The principal activities of the Group are construction, operation and management of an expressway in the PRC.

Turnover during the year represented revenue from construction work, project management services and operation of the expressway under the service concession arrangement.

5. OTHER REVENUE AND NET LOSS

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|-----------------------------------------------------------|-------------------------|-------------------------|
| Other revenue | | |
| Interest income from bank deposits | 342 | 1,926 |
| Other | — | 18 |
| | <u>342</u> | <u>1,944</u> |
| Other net loss | | |
| Exchange loss | 39 | 955 |
| Change in fair value of a derivative financial instrument | 335 | — |
| | <u>374</u> | <u>955</u> |

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|------------------------------------------------------------|-------------------------|-------------------------|
| (a) Finance costs: | | |
| Interest on bank loans wholly repayable within five years | 9,034 | 3,607 |
| Interest on bank loans repayable beyond five years | 29,878 | 16,344 |
| | <u>38,912</u> | <u>19,951</u> |
| Total interest expense on bank loans | 38,912 | 19,951 |
| Less: interest expense capitalised into intangible assets* | (38,592) | (19,951) |
| | <u>320</u> | <u>—</u> |

* *The borrowing costs have been capitalised at a rate of 5.760% – 6.685% per annum (2010: 5.346% – 5.760%).*

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------------------------------|-------------------------|-------------------------|
| (b) Staff costs: | | |
| Salaries, wages and other benefits | 15,025 | 13,271 |
| Contributions to defined contribution retirement plans | 564 | 532 |
| | <u>15,589</u> | <u>13,803</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 \$20,000. 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.

| | 2011 | 2010 |
|-----------------------------------------------------------------|------------------------|-----------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| (c) Other items: | | |
| Auditors’ remuneration | | |
| – Audit and review services | 1,800 | 1,600 |
| – Other services | 1,528 | 1,800 |
| Depreciation | 543 | 429 |
| Amortisation | 288 | – |
| Impairment loss of intangible assets | 275,464 | – |
| Operating lease charges in respect of rental of office premises | 1,117 | 1,029 |
| | <u>1,117</u> | <u>1,029</u> |

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2011 | 2010 |
|---------------------------------------------------|------------------------|-----------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Deferred tax | | |
| Reversal and origination of temporary differences | (64,388) | 314 |
| | <u>(64,388)</u> | <u>314</u> |

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2011 and 2010.
- (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% (2010: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose.

(b) Reconciliation between tax (credits)/expenses and accounting loss at applicable tax rates:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|
| Loss before taxation | <u>(282,212)</u> | <u>(11,321)</u> |
| Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | (66,878) | (272) |
| Tax effect on tax losses not recognised | 2,498 | 600 |
| Tax effect on non-taxable income | <u>(8)</u> | <u>(14)</u> |
| Income tax (credits)/expenses | <u>(64,388)</u> | <u>314</u> |

8. DIVIDENDS

No dividend has been declared or paid by the Company since its incorporation.

9. LOSS PER SHARE

(a) Loss Per Share

| | 2011 <i>'000</i> | 2010 <i>'000</i> |
|-----------------------------------------------------------|----------------------------|---------------------|
| Issued ordinary shares at 1 January | 412,608 | 400,000 |
| Issuance of shares for placing and public offering | <u>–</u> | <u>11,986</u> |
| Weighted average number of ordinary shares at 31 December | <u>412,608</u> | <u>411,986</u> |

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of \$197,800,000 (2010: \$12,069,000) and the weighted average number of 412,608,000 (2010: 411,986,000) shares in issue during the year.

(b) Diluted Loss Per Share

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted loss per share is equivalent to basic loss per share.

10. PREPAYMENTS AND OTHER RECEIVABLES

All of the prepayments and other receivables are expected to be recovered within one year.

11. ACCRUALS AND OTHER PAYABLES

Included in accruals and other payables as at 31 December 2011 are contract retention deposits to independent contractors of HK\$110,831,000 (2010: HK\$46,864,000) which are expected to be settled after more than one year. The advance received expected to be recognised as income after more than 1 year is HK\$112,249,000 (2010: HK\$58,378,000). All of the remaining accruals and other payables are expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

2011 was a remarkable year for the Group with the commencement of operation of the Sui-Yue Expressway (Hunan Section) in December 2011. The Group started to operate the toll road and generate toll revenue from such expressway from its commencement.

FINANCIAL REVIEW

Turnover and cost of construction services

The Group is mainly engaged in the construction, operation and management of the Sui-Yue Expressway (Hunan Section) in Hunan, the PRC (the “Expressway”). During 2011, the Expressway was mainly under construction and only commenced its operation from December 2011. Toll revenue was collected from that time. Turnover during the year mainly represented revenue from construction work and project management services under the service concession arrangement and there was no real cash inflow realized or realizable during the construction period. In addition, there was some toll fee revenue received in the last few days of December 2011 upon commencement of the operation of the Expressway.

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK\$1,124.7 million, about 2 times of that for the year ended 31 December 2010 of approximately HK\$537.6 million. The increase in the turnover was mainly due to the increased injection of investments and efforts in the construction of the Expressway during the year. Among the turnover of the Group in 2011, there was about HK\$0.7 million toll income collected after the commencement of operation of the Expressway. Total investment in the Expressway was about HK\$2,211.9 million (2010: HK\$1,007.3 million) as at 31 December 2011.

Other revenue and net loss

The Group recorded other revenue and net loss of approximately HK\$0.3 million and HK\$0.4 million respectively (2010: HK\$1.9 million and HK\$1.0 million respectively). Other revenue of the Group was mainly interest income from bank deposits. The decrease in other revenue was mainly due to the application of cash for the payment of construction cost during the year. Other net loss was mainly the decrease in fair value of the interest rate swap agreement entered into during the year.

Administrative expenses

Administrative expenses increased by 29% from approximately HK\$24.2 million for the year ended 31 December 2010 to approximately HK\$31.2 million for the year ended 31 December 2011. The increase mainly due to the professional fees incurred for the proposed acquisition of the entire issued share capital of Sumgreat Investments Limited during the year.

Impairment loss of intangible assets

The Expressway commenced operation in December 2011. The latest projected traffic volume of the Expressway was lower than the volume previously projected in 2009. Also, the increase in the expected market return and the adjustment in the associated risk premium relating to the Company has increased the corresponding discount rate used in the valuation model. As a result, there was an impairment loss of HK\$275.5 million (2010: Nil) for intangible asset – service concession arrangement.

Loss for the year

As the Group incurred an impairment loss of intangible assets during the year, the loss for the year ended 31 December 2011 increased from approximately HK\$11.3 million for the year ended 31 December 2010 to approximately HK\$217.8 million. Disregarding this one-off impairment loss of approximately HK\$275.5 million and its related deferred tax benefits of approximately HK\$68.9 million, the Group incurred a loss for the year of approximately HK\$11.2 million, which is about the same as the loss for the year ended 31 December 2010 of approximately HK\$11.6 million.

Liquidity and financial resources

During the year ended 31 December 2011, the Group financed its operations and capital expenditures by the working capital of the Company and long-term-secured bank loans. As at 31 December 2011, total bank loans drawn down by the Group was about HK\$1,213.8 million (2010: HK\$448.2 million) and the total cash and cash equivalents, including cash at bank and in hand, amounted to approximately HK\$168.2 million (2010: HK\$157.2 million).

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and the future development demands for capital. As at 31 December 2011, total available banking facilities of the Group amounted to HK\$127.8 million from China Merchants Bank, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was HK\$1,213.8 million (2010: HK\$448.2 million) (equivalent to RMB984 million (2010: RMB380 million)). The ratio of outstanding bank loans to equity holders' equity was 264.4% (2010: 71.3%).

As at 31 December 2011, the bank loans are repayable as follows:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|----------------------------------|--------------------------------|-------------------------|
| After 1 year but within 2 years | 597,047 | – |
| After 2 years but within 5 years | 111,015 | 70,770 |
| After 5 years | 505,735 | 377,440 |
| | <u>1,213,797</u> | <u>448,210</u> |

The Group's borrowings were mainly arranged on a floating rate basis. In 2011, the Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying interest rate fluctuation exposure. As at 31 December 2011, the Group had outstanding floating-to-fixed interest rate swap contracts in the aggregate amount of HK\$600 million (2010: Nil).

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 2011, 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 asset

As at 31 December 2011, the banking facilities of RMB1.1 billion from China Merchants Bank was secured by the pledge of the toll collection right in relation to the Expressway, upon commencement of the toll road operation.

Capital commitments

Capital commitments outstanding as at 31 December 2011 which are not provided for in the financial statements of the Company were as follows:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Contracted for | 92,765 | 527,119 |
| Authorised but not contracted for | — | 566,909 |
| | <u>92,765</u> | <u>566,909</u> |

The capital commitments represent the costs for the construction of the Expressway.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

The Expressway is a dual three-lane expressway with a length of approximately 24.08km and is connecting the southern end of the Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau.

The construction work of the Expressway was substantially completed in December 2011 and commenced its operation since then. Pursuant to the concession agreement entered into between Hunan Transportation Department and Hunan Daoyue Expressway Industry Co.,Ltd. (湖南道岳高速公路有限公司) dated 24 November 2009, the Group will operate the Expressway for 27 years. The total construction cost of the Expressway as at 31 December 2011 was about HK\$2,211.9 million.

Since the commencement of operation, the result was in line with management's expectation. The traffic flow on the Expressway was about 400,000 motor vehicles and 280,000 motor vehicles for January and February 2012 respectively. Monthly toll revenues generated from Expressway were about RMB6.2 million and RMB5.8 million for January and February 2012 respectively.

Acquisition of the entire share capital of Sumgreat Investments Limited

On 12 April 2011, the Group entered into a share and purchase agreement between Mr. Chan Yeung Nam as seller and the Company as buyer dated 12 April 2011 (as supplemented by the first supplemental agreement and the second supplemental agreement entered into between the parties dated 30 September 2011 and 12 November 2011, respectively) to acquire the entire interest of Sumgreat Investments Limited and its subsidiaries. Sumgreat Investments Limited and its subsidiaries are mainly engaged in the construction, operation and management of expressway projects. Currently, it has two infrastructure projects, namely the Shuiguan Expressway and Shuiguan Expressway Extension Line, which are both already in operation and revenue generating. It is also receiving fees for provision of project management services in respect of the Shahe Road Project and the Hengping Road Project. In addition, there are two further infrastructure projects which are currently under construction, namely the Shenzhen Qingping Expressway and the Shenzhen Eastern Expressway.

The Group is of the view that the acquisition will enable the Group to derive immediate substantial earnings and cash flow contribution from it. Furthermore, it is in line with the business strategy of the Group to pursue other infrastructure projects in China either by way of acquisition or capitalize on new opportunities. It will enhance the Group's competitiveness and further strengthen the Group's reputation within the industry and improve its overall financial performance.

As stated in the announcement dated 14 November 2011, due to the volatility of the capital market in the recent months, certain condition precedents to such sales and purchase agreement, including the proposal placing of up to 780,000,000 new ordinary shares with par value of HK\$0.01 each in the share capital of the Company, have not been satisfied. The long stop date of the Sales and Purchase Agreement was further extended to 30 April 2012.

For details of the said acquisition, please refer to the announcements of the Company dated 12 April 2011, 30 September 2011 and 14 November 2011, and the circular of the Company dated 24 June 2011.

Employees and emoluments

As at 31 December 2011, the Group employed a total of 200 (2010: 51) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2011, the Group's total expenses on the remuneration of employees was approximately HK\$15.6 million (2010: HK\$13.8 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 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.

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2011.

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 construction of the Expressway completed and operation commenced in December 2011, the Company believes that the current relatively limited trading activities between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province would increase, resulting in significant vehicle turnover for the Expressway.

Furthermore, the Expressway connects to major expressway networks in the PRC and various feeder roads in Hunan Province. It will benefit from its connectivity to the existing and future highway and expressway networks because the usage of expressways depends on their accessibility relative to the points of origin and destination for their potential traffic.

In the shorter term, growth in traffic demand within Hunan Province will be driven by continuing economic growth in the PRC in general and by associated growth in vehicle ownership and usage. Under these premises, it is expected that traffic flow for the Expressway will also show sustainable and continuous growth.

With the experience of the directors of the Company (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 tap and pursue opportunities which are consistent with its overall business strategies, and aiming 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 might 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.

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 Listing Rules for the year ended 31 December 2011.

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 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company had complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2011.

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 2011.

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. 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. The chairman of the audit committee, Mr. Chu Kin Wang, Peleus, 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 2011. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2011 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 2011.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 25 May 2012. Notice of the annual general meeting will be issued and dispatched to shareholders of the Company in due course. The Company’s register of members will be closed from 24 May 2012 to 25 May 2012 (both days inclusive), during such period no transfer of the Shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfers of Shares accompanied by the relevant Share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 23 May 2012.

PUBLICATION OF 2011 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 2011 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, 29 March 2012

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