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 2012

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2012 (the "Period") was approximately HK$43.0 million, representing a decrease of approximately 81.0% over the corresponding period last year.
- Gross profit for the Period was approximately HK$20.9 million, representing an increase of approximately 321.1% over the corresponding period last year.
- Loss attributable to the equity shareholders of the Company for the Period was approximately HK$47.6 million.
- Basic and diluted loss per share for the Period amounted to HK$0.1154.

The board of directors (the "Board") 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 2012, together with the comparative figures for the corresponding period in 2011. The interim financial report for the six months ended 30 June 2012 has not been audited, but have been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the auditors of the Company.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012 – unaudited

		Six months ended 30 June	
	Note	**2012**	2011
		HK$'000	*HK$'000*
Turnover	*3*	**42,996**	225,802
Cost		**(22,074)**	(220,834)
Gross profit		**20,922**	4,968
Other revenue		**72**	238
Other net loss		**(3,671)**	(215)
Administrative expenses		**(14,264)**	(15,606)
Impairment loss		**(13,609)**	–
Loss from operations		**(10,550)**	(10,615)
Finance costs		**(48,208)**	–
Loss before taxation	*4*	**(58,758)**	(10,615)
Income tax credit	*5*	**6,453**	208
Loss for the period		**(52,305)**	(10,407)
Attributable to:			
Equity shareholders of the company		**(47,599)**	(10,340)
Non-controlling interests		**(4,706)**	(67)
Loss for the period		**(52,305)**	(10,407)
Loss per share *(HK Cents)*			
Basic and diluted	*6*	**(11.54)**	(2.51)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 – unaudited

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Loss for the period	**(52,305)**	(10,407)
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	**(2,823)**	13,454
Total comprehensive income for the period	**(55,128)**	3,047
Attributable to:		
Equity shareholders of the company	**(50,140)**	1,768
Non-controlling interests	**(4,988)**	1,279
Total comprehensive income for the period	**(55,128)**	3,047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012 – unaudited

	Note	**At 30 June 2012** ***HK$'000***	At 31 December 2011 *HK$'000*
Non-current assets			
Property, plant and equipment		**3,710**	2,367
Intangible asset - service concession arrangement		**1,938,201**	1,936,165
Deferred tax assets		**72,417**	66,341
		2,014,328	2,004,873
Current assets			
Prepayments and other receivables		**66,527**	13,226
Cash at bank and in hand		**35,759**	168,223
		102,286	181,449
Current liabilities			
Derivative financial instrument		**762**	335
Accruals and other payables	*7*	**343,393**	420,755
Amount due to a related company		**1,763**	1,300
Bank loans		**599,514**	584,712
		945,432	1,007,102
Net current liabilities		**(843,146)**	(825,653)
Total assets less current liabilities		**1,171,182**	1,179,220
Non-current liabilities			
Bank loan		**671,005**	629,085
Amount due to the controlling shareholder of the Company		**42,853**	37,683
		713,858	666,768
NET ASSETS		**457,324**	512,452
CAPITAL AND RESERVES			
Share capital		**4,126**	4,126
Reserves		**404,685**	454,825
Total equity attributable to equity shareholders of the company		**408,811**	458,951
Non-controlling interests		**48,513**	53,501
TOTAL EQUITY		**457,324**	512,452

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PRESENTATION AND 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*, adopted by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 29 August 2012.

The interim financial report has also been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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 2011 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 2011 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2012.

At 30 June 2012, the group's net current liabilities were $843,146,000. The directors had 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 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 next twelve months;

ii based on the cash flow forecast, the group expects to comply with bank covenants and meet scheduled repayment obligations in the next twelve months and does not consider it probable that the lender of the group's long term loan repayable on demand of $598,287,000 will exercise its discretion to demand repayment in the next twelve months;

iii the group had unutilised bank facilities of $77,138,000 at 30 June 2012;

iv at 30 June 2012, the group's contract retention deposits of $70,378,000 is expected to be settled after more than 1 year, and advance receipt of $128,804,000 is expected to be recognised as income;

v the controlling shareholder of the company undertakes that repayment of advances of $42,853,000 at 30 June 2012 will not be requested in the next twelve months.

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the group and the company. None of the developments are relevant to the group's financial statements and the group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER

The principal activities of the group are construction, operation and management of an expressway in the People's Republic of China ("PRC").

Turnover during the period represented revenue from construction work, project management services and operation of the expressway under the service concession arrangement. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Construction revenue in respect of service concession arrangement	**1,234**	225,802
Toll income	**41,762**	–
	42,996	225,802

4 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank loans	**48,208**	15,808
Less: Interest expense capitalised into intangible assets*	**–**	(15,808)
	48,208	–

* The borrowing costs had been capitalised at a rate of 5.760% - 6.120% per annum for the period ended 30 June 2011.

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
(b) Staff costs:		
Salaries, wages and other benefits	**8,517**	7,275
Contributions to defined contribution retirement plans	**933**	418
	9,450	7,693

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.

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
(c) Other items:		
Depreciation	**406**	266
Amortisation	**13,790**	–
Impairment loss of intangible asset	**13,609**	–
Operating lease charges in respect of rental of office premises	**743**	579

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Deferred tax		
Origination and reversal of temporary differences	**(6,453)**	(208)

(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 2012 and 2011.

(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% (2011: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the group did not have assessable profits subject to PRC corporate income tax during the periods ended 30 June 2012 and 2011.

(iv) The deferred tax assets recognised during the Period were resulted from additional impairment loss and unused tax losses.

6 LOSS PER SHARE

(a) Loss per share

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the company for the period of $47,599,000 (six months ended 30 June 2011: $10,340,000) and the weighted average number of 412,608,000 (2011: 412,608,000) shares in issue during the interim period.

(b) Diluted loss per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2012 and 2011, therefore, diluted loss per share is equivalent to basic loss per share.

7. ACCRUALS AND OTHER PAYABLES

	At 30 June 2012	At 31 December 2011
	HK$'000	*HK$'000*
Construction costs payable	**197,874**	261,078
Accruals	**16,715**	30,159
Advance received	**128,804**	129,518
	343,393	420,755

Included in accruals and other payables as at 30 June 2012 are contract retention deposits to independent contractors of $70,378,000 (2011: $110,831,000) which are expected to be settled after more than one year. The advance received expected to be recognised as income after more than one year is $94,456,000 (2011: $112,249,000). All of the remaining accruals and other payables are expected to be settled within one year.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover of the Group for the six months ended 30 June 2012 represented revenue from construction work, project management services and operation of the expressway under the service concession arrangement. For the six months ended 30 June 2012, the Group recorded a turnover of approximately HK$43.0 million, representing a decrease of about 81.0% from the corresponding period last year of approximately HK$225.8 million. With the commencement of the operation of the Sui-Yue Expressway (Hunan Section) (the "Expressway") in December 2011, the turnover of the Group during the period was mainly derived from toll fee revenue from the Expressway, while the turnover of the corresponding period last year was mainly revenue from construction work and project management.

Cost and gross profit

For the six months ended 30 June 2012, the cost and gross profit of the Group were approximately HK$22.1 million and HK$20.9 million respectively while the ones recorded for the corresponding period last year were approximately HK$220.8 million and HK$5.0 million respectively. The cost of the Group after the commencement of the operation of the Expressway consisted mainly of staff cost and the amortization of the concession right of the Expressway and decreased by 90.0% while the gross profit of the Group increased by 321.1%.

Impairment loss

The Expressway commenced operation in December 2011. On 2 August 2012, the State Council announced the Toll-Free on Major Festivals and Holidays for Small Passenger Vehicles Implementation Policy (《重大節日免小型客車通行費實施方案》)(the "Holiday Toll-Free Policy"). Pursuant to the Holiday Toll-Free Policy, small passenger vehicles with 7 seats or fewer would be entitled to use certain toll roads during major statutory holidays free of charge. The Group has assessed the impact of the policy on the toll revenue of the Expressway and estimated there would be a decrease in toll revenue by approximately 2% annually resulting from the implementation of the Holiday Toll-Free Policy. Therefore, an impairment loss of intangible assets – service concession arrangement related to the Expressway of approximately HK$13.6 million was recognized for the six months ended 30 June 2012.

Finance costs

After the commencement of operation of the Expressway, borrowing costs are expensed in the period in which they are incurred according to the accounting policy of the Group. For the six months ended 30 June 2012, the borrowing costs of approximately HK$48.2 million were expensed while all the borrowing costs incurred in the corresponding period last year were capitalized as part of the cost of the intangible asset – service concession arrangement.

Liquidity and financial resources

During the six months ended 30 June 2012, the Group financed its operations and capital expenditures with the internal resources of the Company and long term bank loans. As at 30 June 2012, total bank loan drawn by the Group was about HK$1,270.5 million and the total cash and cash equivalents, including bank deposits and cash on hand amounted to HK$35.8 million.

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2012, total available banking facilities of the Group from China Merchants Bank amounted to RMB1.1 billion, which is mainly for the construction cost of the Sui-Yue Expressway (Hunan Section), and includes outstanding bank borrowings of HK$1,270.5 million. The ratio of total outstanding bank borrowings to equity attributable to shareholders was 310.8%. (As at 31 December 2011: 264.5%).

As at 30 June 2012, the Group had outstanding floating-to-fixed interest rate swap contracts in the aggregate amount of HK$600 million (As at 31 December 2011: HK$600 million).

Employees and emoluments

As at 30 June 2012, the Group employed a total of 221 (As at 31 December 2011: 200) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the six month ended 30 June 2012, the Group's total expenses on the remuneration of employees was approximately HK$9.5 million (2011: HK$7.7 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.

Foreign exchange risk

The Group's functional currency is Hong Kong Dollars. Individual companies within the Group have limited foreign exchange risk as most of the transactions are denominated in the functional currency of the operations in which they relate. However, as the principal subsidiary, Hunan Daoyue Expressway Industry Co., Ltd., mainly carried out transactions in Renminbi, therefore any appreciation or depreciation of Hong Kong Dollars against Renminbi will affect the Group's financial position and be reflected in the exchange reserve.

During the six months ended 30 June 2012, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

PLEDGE OF ASSETS

The banking facilities of RMB1.1 billion from China Merchants Bank was secured by the pledge of the right of receiving toll fees in relation to the Sui-Yue Expressway (Hunan Section).

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

The Expressway commenced its operation in December 2011. Pursuant to the concession agreement entered into between Hunan Transportation Department and Hunan Daoyue Expressway Industry Co., Ltd. dated 24 November 2009, the Group will operate the Expressway for 27 years. The total construction cost of the Expressway as at 30 June 2012 amounted to about HK$2,240 million.

Since the commencement of operation of the Expressway, the result was satisfactory. The average traffic flow on the Expressway was about 270,000 vehicles per month. Average monthly toll revenues generated from the Expressway were about HK$6 million. Although the actual traffic flow of the Expressway was lower than the forecasted volume included in the traffic consultant report prepared in 2009, the Group is still optimistic about the future outlook of the Expressway in view the high economic growth of Hunan Province, where the Expressway is located.

Future plans and prospects

On 12 April 2011, the Company entered into a share purchase agreement with Mr. Chan Yeung Nam, the Chairman and a substantial shareholder of the Company, to acquire the entire issued share capital of Sumgreat Investments Limited. Nevertheless, due to the volatility of the capital market, certain conditions precedent to the share purchase agreement have not yet been satisfied as at 30 April 2012, being the long stop date as agreed between the Company and Mr. Chan Yeung Nam. Accordingly, the agreement has lapsed and the acquisition did not proceed.

Although the acquisition was not completed due to market volatility, it will not affect our plans for future development and prospect.

In accordance with our development 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.

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 2012.

CORPORATE GOVERNANCE

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has made various amendments to the Code on Corporate Governance Practices (the "**Old CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and renamed it the Corporate Governance Code (the "**New CG Code**"). The New CG Code took effect on 1 April 2012.

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders. It had adopted the code provisions contained in the Old CG Code until 31 March 2012, and has adopted the revised code provisions contained in the New CG Code with effect from 1 April 2012. The Company had complied with (i) the code provisions contained in the Old CG Code from 1 January 2012 to 31 March 2012; and (ii) the code provisions contained in the New CG Code from 1 April 2012 to 30 June 2012.

AUDIT COMMITTEE

The Company has established an audit committee which 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 is composed 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 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 six months ended 30 June 2012. The audit committee considered that the consolidated results of the Group for the six months ended 30 June 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

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 under review.

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 2012 Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders 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, 29 August 2012

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