

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

2018 *Interim Report*

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chan Yeung Nam (*Chairman*)
Mai Qing Quan (*Chief Executive Officer*)
Fu Jie Pin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Xiao Nian
Chu Kin Wang, Peleus
Hu Lie Ge
Zou Ying

BOARD COMMITTEES

AUDIT COMMITTEE

Chu Kin Wang, Peleus (*Chairman*)
Hu Lie Ge
Sun Xiao Nian

NOMINATION COMMITTEE

Sun Xiao Nian (*Chairman*)
Hu Lie Ge
Fu Jie Pin

REMUNERATION COMMITTEE

Hu Lie Ge (*Chairman*)
Chu Kin Wang, Peleus
Fu Jie Pin

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

Flat A, Level 17, Block 1
Prince Palace Garden
Changsha City
Hunan Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1205, 12/F
Tower 1, Lippo Centre
89 Queensway
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House
3/F, 24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co.
39/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Management Discussion and Analysis

FINANCIAL REVIEW

REVENUE

For the six months ended 30 June 2018 (the “Period”), Huayu Expressway Group Limited (the “Company”, together with its subsidiaries, 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 about 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 about 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 attributable to the amortisation of the concession right of the Expressway, and will be increased in the similar 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(s) 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.

Management Discussion and Analysis

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 approximately 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. As such, 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.

Management Discussion and Analysis

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 for the Period. 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 induced 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.

Management Discussion and Analysis

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 connects 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.

Management Discussion and Analysis

EXTRACT OF INDEPENDENT REVIEW REPORT

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 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.”

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This 2018 interim report of the Company is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk) respectively.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of Directors	Nature of Interest	Number of Shares	Percentage
Mr. Chan Yeung Nam (<i>Note</i>)	Interest of controlled corporation	300,000,000 (L)	72.71%

Note: Mr. Chan Yeung Nam, an executive Director and chairman of the Board of the Directors, is deemed to be interested in 300,000,000 shares of the Company held by Velocity International Limited by virtue of it being wholly-owned by him.

On 12 January 2018, Velocity International Limited had pledged 300,000,000 shares of the Company to TCG Capital Investment Limited (which is wholly owned by Mr. Chan Weng Lin) as security for another term loan facility provided to Velocity International Limited.

Apart from the foregoing, as at 30 June 2018, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the Period was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “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.

The maximum number of shares which may be issued upon exercise of all options (the “Option”) to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares of the Company in issue as at 23 December 2009, being the date on which the Shares were listed on the Main Board of the Stock Exchange (the “Listing Date”), i.e. 40,000,000 shares. No Option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the Options granted and to be granted to the grantee in any 12-month period exceeds 1% of the shares in issue from time to time.

The Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board of the Directors and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the Option is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of a share as stated in the Stock Exchange’s daily quotations sheet on the offer date; and
- (c) the average closing price of a share as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further Option will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

Since the Share Option Scheme became effective on 30 November 2009, no Option has been granted by the Company under the Share Option Scheme.

The total number of shares available for issue under the Share Option Scheme is 40,000,000, representing approximately 9.69% and 9.69% of the Company’s issued share capital as at the date of the Company’s 2017 annual report and as at the date of this interim report, respectively.

Corporate Governance and Other Information

Apart from the foregoing, at no time during the Period was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, so far as is known to any Directors or chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% or more of the nominal value of any shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	Capacity/Nature of Interest	Long position in ordinary Shares held	Percentage of total issued shares
Velocity International Limited (Note 1)	Beneficial owner	300,000,000(L)	72.71%
TCG Capital Investment Limited (Note 1)	Person having security interest in shares	300,000,000(L)	72.71%
Chan Weng Lin (Note 1)	Interest of Controlled Corporation	300,000,000(L)	72.71%

Note:

- 1 The entire issued share capital of Velocity International Limited is owned by Mr. Chan Yeung Nam, an executive Director and chairman of the Board. On 12 January 2018, Velocity International Limited had pledged 300,000,000 shares of the Company to TCG Capital Investment Limited (which is wholly-owned by Mr. Chan Weng Lin) as security for a term loan facility provided to Velocity International Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares for the Period.

Corporate Governance and Other Information

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 (the “CG Code”) in Appendix 14 to the Listing Rules. The Company has complied with the code provisions contained in the CG Code for 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.

REVIEW OF THE INTERIM REPORT

This interim financial report for the Period has not been audited, but has been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the external auditors of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in 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.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to 30 June 2018 up to the date of this interim financial report.

On behalf of the Board of
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 24 August 2018

Review Report of Interim Financial Report



Review report to the Board of Directors of Huayu Expressway Group Limited

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 14 to 36 which comprises the consolidated statement of financial position of Huayu Expressway Group Limited (“the Company”) and its subsidiaries (together “the Group”) as of 30 June 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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*.

Review Report of Interim Financial Report

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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 August 2018

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
Revenue	3	104,775	74,711
Cost of sales		(37,045)	(26,652)
Gross profit		67,730	48,059
Other revenue	4	341	6
Other net (loss)/income	4	(49)	847
Administrative expenses		(12,651)	(11,696)
Profit from operations		55,371	37,216
Finance costs	5(a)	(29,059)	(28,794)
Profit before taxation	5	26,312	8,422
Income tax	6	(4,320)	(4,132)
Profit for the period		21,992	4,290
Attributable to:			
Equity shareholders of the Company		19,462	3,392
Non-controlling interests		2,530	898
Profit for the period		21,992	4,290
Earnings per share (HK Cents)			
Basic and diluted	7	4.72	0.82

The notes on pages 20 to 36 form part of this interim financial report.

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the six months ended 30 June 2018 – unaudited

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

The notes on pages 20 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2018 – unaudited

	Note	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Non-current assets			
Property, plant and equipment	8	12,405	13,376
Intangible asset – service concession arrangement	9	1,377,647	1,419,122
Deferred tax assets		120,028	125,270
		1,510,080	1,557,768
Current assets			
Trade and other receivables	10	28,932	21,921
Cash and cash equivalents	11	43,483	30,524
		72,415	52,445
Current liabilities			
Accruals and other payables	12	122,892	131,033
Amount due to a related company	16(c)	147	–
Bank loan	13	77,097	78,855
		200,136	209,888
Net current liabilities		(127,721)	(157,443)
Total assets less current liabilities		1,382,359	1,400,325
Non-current liabilities			
Bank loan	13	1,014,116	1,064,707
Amount due to the controlling shareholder of the Company	16(c)	125,829	121,328
Amount due to a related company	16(c)	188,039	179,999
		1,327,984	1,366,034
NET ASSETS		54,375	34,291

The notes on pages 20 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2018 – unaudited

	Note	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
CAPITAL AND RESERVES	14		
Share capital		4,126	4,126
Reserves		35,737	17,994
Total equity attributable to equity shareholders of the Company		39,863	22,120
Non-controlling interests		14,512	12,171
TOTAL EQUITY		54,375	34,291

Approved and authorised for issue by the Board of Directors on 24 August 2018.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 20 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018 – unaudited

	Attributable to equity shareholders of the Company						Non-controlling interests	Total
	Share capital	Share premium	Other reserve	Exchange reserve	Accumulated losses	Total		
	Note 14(a) HK\$'000	Note 14(b)(i) HK\$'000	Note 14(b)(ii) HK\$'000	Note 14(b)(iii) HK\$'000	HK\$'000	HK\$'000		
Balance at 1 January 2017	4,126	130,044	502,784	36,200	(673,356)	(202)	8,659	8,457
Changes in equity for the six months ended 30 June 2017:								
Profit for the period	-	-	-	-	3,392	3,392	898	4,290
Other comprehensive income	-	-	-	2,598	-	2,598	281	2,879
Total comprehensive income	-	-	-	2,598	3,392	5,990	1,179	7,169
Balance at 30 June 2017 and 1 July 2017	4,126	130,044	502,784	38,798	(669,964)	5,788	9,838	15,626
Changes in equity for the six months ended 31 December 2017:								
Profit for the period	-	-	-	-	12,453	12,453	1,909	14,362
Other comprehensive income	-	-	-	3,879	-	3,879	424	4,303
Total comprehensive income	-	-	-	3,879	12,453	16,332	2,333	18,665
Balance at 31 December 2017	4,126	130,044	502,784	42,677	(657,511)	22,120	12,171	34,291
Balance at 1 January 2018	4,126	130,044	502,784	42,677	(657,511)	22,120	12,171	34,291
Changes in equity for the six months ended 30 June 2018:								
Profit for the period	-	-	-	-	19,462	19,462	2,530	21,992
Other comprehensive income	-	-	-	(1,719)	-	(1,719)	(189)	(1,908)
Total comprehensive income	-	-	-	(1,719)	19,462	17,743	2,341	20,084
Balance at 30 June 2018	4,126	130,044	502,784	40,958	(638,049)	39,863	14,512	54,375

The notes on pages 20 to 36 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
Operating activities			
Cash generated from operations		96,299	43,802
Tax paid		–	–
Net cash generated from operating activities		96,299	43,802
Investing activities			
Payment for the purchase of fixed assets		(437)	(383)
Payment for intangible assets		(23,231)	(26,621)
Other cash flows arising from investing activities		43	6
Net cash used in investing activities		(23,625)	(26,998)
Financing activities			
Repayment of bank loan		(44,083)	(34,976)
Advances from the controlling shareholder of the Company		4,499	6,650
Advances from a related company		9,819	88,249
Borrowing costs paid		(29,276)	(28,794)
Net cash (used in)/generated from financing activities		(59,041)	31,129
Net increase in cash and cash equivalents		13,633	47,933
Cash and cash equivalents at 1 January		30,524	10,806
Effect of foreign exchange rate changes		(674)	1,047
Cash and cash equivalents at 30 June	11	43,483	59,786

The notes on pages 20 to 36 form part of this interim financial report.

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 24 August 2018.

The interim financial report 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 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 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 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. KPMG's independent review report to the Board of Directors is included on pages 12 to 13.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION (CONTINUED)

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 report has been prepared on a going concern basis. The interim financial report 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(A) OVERVIEW (CONTINUED)

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(B) HKFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO HKFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (CONTINUED)*

(i) **Credit losses (CONTINUED)**

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(B) HKFRS 9, *FINANCIAL INSTRUMENTS*, INCLUDING THE AMENDMENTS TO HKFRS 9, *PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (CONTINUED)*

(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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(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 HK\$'000	2017 HK\$'000
Toll income	104,775	66,303
Rental revenue	–	8,408
	104,775	74,711

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET (LOSS)/INCOME

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Other revenue		
Billboard rental income	298	–
Interest income from bank deposits	43	6
	341	6
Other net (loss)/income		
Net foreign exchange (loss)/gain	(249)	837
Others	200	10
	(49)	847

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Deferred tax		
Origination and reversal of temporary differences	(4,320)	(4,132)

- (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.

7 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.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of equipment with a cost of HK\$437,000 (six months ended 30 June 2017: HK\$1,394,000). No item was disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Cost:		
At 1 January	2,353,054	2,106,716
Additions	–	95,278
Exchange adjustments	(25,508)	151,060
At 30 June/31 December	2,327,546	2,353,054
Accumulated amortisation:		
At 1 January	214,183	164,290
Charge for the period/year	24,764	37,082
Exchange adjustments	(2,658)	12,811
At 30 June/31 December	236,289	214,183
Accumulated impairment loss:		
At 1 January	719,749	672,578
Exchange adjustments	(6,139)	47,171
At 30 June/31 December	713,610	719,749
Net book value:		
At 30 June/31 December	1,377,647	1,419,122

The service concession arrangement represents the Group's right to operate the Sui-Yue Expressway (Hunan Section) (the "Expressway") and receive fees therefrom.

The amortisation of intangible asset – service concession arrangement is recognised in statement of profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (CONTINUED)

IMPAIRMENT LOSS

The recoverable amount of the cash generating unit containing the Expressway was determined by value in use, based on the expected free cash flows up to the end of the service concession arrangement period, and a pre-tax discount rate.

Key assumptions used for the value in use calculation of 2017 are average annual toll revenue growth rate over the concession period of 15.0%, and pre-tax discount rate of 18.2%.

The discount rate is a pre-tax measure estimated using the Capital Asset Pricing Model based on the industry average ratios and the CGU's specific risks.

Management are not aware of any significant changes in the assumptions in current period. As the Expressway was written down to recoverable amount in previous periods, any further adverse changes in the key assumptions used in determining the value in use may lead to further impairment of the intangible asset.

10 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
	28,932	21,921

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 Expressway.

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).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

11 CASH AND CASH EQUIVALENTS

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Cash at bank and on hand	43,483	30,524

12 ACCRUALS AND OTHER PAYABLES

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

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).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

13 BANK LOAN

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
<i>Current liability</i>		
Current portion of a long-term secured bank loan	77,097	78,855
<i>Non-current liability</i>		
Long-term secured bank loan	1,014,116	1,064,707
	1,091,213	1,143,562

At 30 June 2018 and 31 December 2017, the bank loan was repayable as follows:

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Within 1 year or on demand	77,097	78,855
After 1 year but within 2 years	88,958	83,741
After 2 years but within 5 years	338,039	323,001
After 5 years	587,119	657,965
	1,091,213	1,143,562

The Group's rights to operate the Expressway and receive toll fees therefrom, have been pledged to secure the bank loan.

The bank loan is subject to certain covenants and the Group's PRC subsidiary, Hunan Daoyue Expressway Industry Co., Ltd. ("Daoyue"), is required to obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years until 2027. The Group regularly monitors its compliance with these covenants, and adheres to the timetable of the scheduled repayments of the term loan. As at 30 June 2018, none of the covenants relating to drawn down facilities had been breached (2017: Nil).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CAPITAL, RESERVES AND DIVIDENDS

(A) SHARE CAPITAL

	2018		2017	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
<i>Ordinary shares, issued and fully paid:</i>				
At 1 January	412,608,000	4,126	412,608,000	4,126
At 30 June 2018/31 December 2017	412,608,000	4,126	412,608,000	4,126

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(B) RESERVES

(i) Share premium

Share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Other reserve

On 13 April 2009, the Company acquired 90% equity interest in Daoyue from Shenzhen Huayu Investment & Development (Group) Co., Ltd.. The difference between the historical carrying value of the shares of Daoyue acquired and the acquisition consideration paid by the Company is recorded in "Other reserve".

In addition, pursuant to the Group's reorganisation before its initial public offering, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from group companies amounted to HK\$513,388,000. The difference between the assigned receivable balances over the nominal value of HK\$3,000,000 of the shares issued by the Company in exchange thereof was also recorded in "Other reserve".

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(B) RESERVES (CONTINUED)

(iii) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation.

(C) DIVIDENDS

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2018 (2017: Nil).

15 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

At 30 June 2018, the Group had no capital commitments outstanding not provided for in the interim financial report (31 December 2017: Nil).

16 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim financial report, the Group entered into the following material related party transactions.

(A) DURING THE PERIOD, THE DIRECTORS ARE OF THE VIEW THAT THE FOLLOWING INDIVIDUAL AND COMPANIES ARE RELATED PARTIES OF THE GROUP:

Name of party	Relationship
Mr Chan Yeung Nam	Controlling shareholder of the Company
Shenzhen Huayu Investment & Development (Group) Co., Ltd.* 深圳華昱投資開發(集團)有限公司	Under the control of the controlling shareholder of the Company
Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.* 深圳華昱道路養護工程有限公司	Under the control of the controlling shareholder of the Company

* The English translation of this company name is for reference only. The official name of this company is in Chinese.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

16 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (B) PARTICULARS OF SIGNIFICANT TRANSACTIONS BETWEEN THE GROUP AND THE ABOVE RELATED PARTIES DURING THE PERIOD ARE AS FOLLOWS:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Expense paid on behalf of the Group by Shenzhen Huayu Investment & Development (Group) Co., Ltd.	89	72
Advance from Shenzhen Huayu Investment & Development (Group) Co., Ltd.	58,915	178,761
Repayment to Shenzhen Huayu Investment & Development (Group) Co., Ltd.	49,096	90,512
Advance from the controlling shareholder of the Company	4,500	6,650
Receiving services from Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	2,946	–

(C) BALANCES WITH RELATED PARTIES

As at 30 June 2018 and 31 December 2017, the Group had the following balances with related parties:

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Amount due to Shenzhen Huayu Investment & Development (Group) Co., Ltd.	(188,039)	(179,999)
Amount due to Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	(147)	–
Amount due to the controlling shareholder of the Company	(125,829)	(121,328)
	(314,015)	(301,327)

Balances with Shenzhen Huayu Investment & Development (Group) Co., Ltd. and the controlling shareholder represented advances made from related parties of the Group. These advances are unsecured and interest-free.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

17 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9 (see note 2(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The amendments and new standards include the following which may be relevant to the Group:

	<i>Effective for accounting periods beginning on or after</i>
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) Interpretation 23, <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
<i>Annual Improvements to HKFRSs 2015–2017 cycle</i>	1 January 2019
Amendments to HKAS 19, <i>Plan amendment, curtailment or settlement</i>	1 January 2019
Amendments to HKAS 28, <i>Long-term interests in associates and joint ventures</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective dates and which transitional approach to take, where there are alternative approaches allowed under the new standards.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

17 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018 (CONTINUED)

HKFRS 16, *LEASES*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding “right-of-use” asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

The following is an updated information about the Group’s future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Properties HK\$'000
Amounts payable	
Within 6 months	722
After 6 months but within 1 year	780
After 1 year but within 5 years	520
	2,022

Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.