

# 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

INTERIM REPORT **2014**

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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

### 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

3/F, Green 18  
No. 18 Science Park East Avenue  
Hong Kong Science Park  
Hong Kong

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited  
4/F Royal Bank House  
24 Shedden Road, George Town  
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  
Wanchai  
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

Orrick, Herrington & Sutcliffe  
43/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### PRINCIPAL BANKERS

China Merchants Bank  
China Construction Bank Corporation  
Wing Lung Bank

### COMPANY WEBSITE

[www.huayu.com.hk](http://www.huayu.com.hk)

### STOCK CODE

1823

# Management Discussion and Analysis

## FINANCIAL REVIEW

### TURNOVER

For the six months ended 30 June 2014 (the “Period”), the Group recorded a turnover of approximately HK\$90.4 million, increased by about 16.9% from the corresponding period last year of approximately HK\$77.3 million. The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$69.5 million, increased by 22.5% from about HK\$56.8 million of the corresponding period in 2013. For the Period, the average traffic flow of the Expressway was about 357,000 cars per month and had a steady growth over the years. In addition to the toll revenue, the Group also had approximately HK\$20.9 million of rental income from the leasing of the service area along the Expressway.

### COST AND GROSS PROFIT

The costs and gross profit of Huayu Expressway Group Limited (the “Company”, together with its subsidiaries, known as the “Group”) were approximately HK\$33.3 million and HK\$57.1 million for the Period respectively as compared to the corresponding period last year of approximately HK\$28.7 million and HK\$48.6 million respectively. The costs of the Group were mainly the staff cost and the amortization of the concession right of the Expressway. Due to the growth in the traffic flow, the corresponding amortization of the concession right increased during the Period. As a result, the cost of the Group increased by 16.0%. The increase in the gross profit was in line with the growth in the turnover.

### ADMINISTRATIVE EXPENSES

Administrative expenses for the Period were approximately HK\$13.5 million which has decreased by about 0.8% from that of the period ended 30 June 2013. Most of the administrative expenses were salaries and wages and were stable over the years.

### FINANCE COSTS

Finance costs of the Group for the Period were approximately HK\$43.0 million and has decreased by 4.0% as compared to the corresponding period last year due to the decrease in the borrowing interest rate during the Period.

## Management Discussion and Analysis

### LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company for the Period was approximately HK\$6.3 million, increased by about HK\$6.0 million as compared to the corresponding period last year. The increase was mainly attributable to the exchange loss of HK\$6.1 million recorded in a PRC subsidiary of the Group from the unrealized foreign currency translation of a Hong Kong dollar bank loan as at 30 June 2014.

### LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2014, the Group financed its operations and capital expenditures with internal resources of the Company and long term bank loans. As at 30 June 2014, total bank loans drawn by the Group amounted to about HK\$1,347.7 million (as at 31 December 2013: HK\$1,362.1 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to HK\$14.2 million (as at 31 December 2013: HK\$21.1 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2014, total banking facilities of the Group amounted to HK\$1,385.8 million from China Merchants Bank and Wing Lung Bank Limited, which were mainly for the construction costs of the Expressway, among which the outstanding secured bank loan was HK\$1,347.7 million (as at 31 December 2013: HK\$1,362.1 million). The ratio of total outstanding bank loans to equity attributable to shareholders was 656.6% (as at 31 December 2013: 636.5%).

The Group's borrowings were mainly arranged on a floating rate basis. During the six months ended 30 June 2014, the Group did not enter into any hedging arrangements to hedge against exposure in interest rate risk. Any substantial interest rate fluctuation of interest rate may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's interest rate exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

### EMPLOYEES AND EMOLUMENTS

As at 30 June 2014, the Group employed a total of 217 (as at 31 December 2013: 246) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the six month ended 30 June 2014, the Group's total expenses on the remuneration of employees were approximately HK\$10.4 million (2013: HK\$10.6 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.

## Management Discussion and Analysis

### FOREIGN EXCHANGE RISK

The Group mainly operates in the People's Republic of China (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 2014, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

### PLEDGE OF ASSETS

As at 30 June 2014, the bank loans of HK\$1,347.7 million from China Merchants Bank and Wing Lung Bank were secured by a pledge of the toll collection right in relation to the Expressway.

### BUSINESS REVIEW

#### SUI-YUE EXPRESSWAY (HUNAN SECTION)

Average traffic flow per month of the Expressway has increased gradually since its commencement of operations. Total toll collected during the Period was about HK\$69.5 million. In addition, the Group recorded rental income of about HK\$20.9 million from leasing of the service area along the Expressway during the Period. With these significant amounts of income, the board (the "Board") of directors (the "Directors") of the Company are optimistic about the future prospects of the Expressway.

#### FUTURE PLANS AND PROSPECTS

With the experience of the Directors in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them within the PRC, the Group will continue to seize and pursue opportunities which are consistent with its overall business strategies, and will aim to generate a satisfactory return on investment.

In accordance with this strategy, the Group will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider to acquire abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so. In addition, we will consider developing any infrastructure-related businesses as such opportunity arises.

## Management Discussion and Analysis

### GOING CONCERN BASIS

At 30 June 2014, the Group's net current liabilities were HK\$779,935,000. The Group is dependent upon the financial support from the Group's bankers, 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 continue to indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

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

- i. the Group expects to generate positive operating cash flows for the next twelve months;
- ii. among the current liabilities, HK\$598,120,000 were bank loans which fall due in 2016 with payment on demand terms. The Group has secured a contractual right to draw down from a long-term secured bank loan facility from another bank should the loan be recalled on demand by the bank. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered in the following 12 months from 30 June 2014;
- iii. advance receipt of HK\$44,093,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;
- iv. the controlling shareholder of the Company has undertaken that repayment of advances of HK\$86,579,000 at 30 June 2014 will not be requested in the following 12 months; and
- v. the Directors are confident that the Group will be able to obtain additional bank loan facilities as and when required.

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

## Corporate Governance and Other Information

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

As at 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, 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 ("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 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 of the Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Name of Directors	Nature of Interest	Number of shares	Percentage
Mr. Chan Yeung Nam (Note)	Interest of controlled corporation	300,000,000	72.71%

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

Apart from the forgoing, as at 30 June 2014, 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 position 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 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 interest 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).



## Corporate Governance and Other Information

### 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 details of the principal terms and conditions of the Share Option Scheme were summarized in the section headed “Share Option Scheme” in Appendix VII to the prospectus of the Company dated 11 December 2009 (the “Prospectus”).

Since the Share Option Scheme become effective on 30 November 2009, no options have been granted by the Company under the Share Option Scheme.

Apart from the forgoing, 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 of the Company 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 PERSON’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, 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:

<b>Name of shareholders</b>	<b>Long position in ordinary shares held</b>	<b>Percentage of total issued shares</b>
Velocity International Limited (Note)	300,000,000	72.71%

Note: The entire issued share capital of Velocity International Limited is owned by Mr. Chan Yeung Nam, an executive Director and chairman of the Board.

### 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 2014.

## Corporate Governance and Other Information

### CORPORATE GOVERNANCE

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 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 had complied with the code provisions contained in the CG Code for the six months ended 30 June 2014.

### 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 2014. The audit committee considered that the consolidated results of the Group for the six months ended 30 June 2014 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

### REVIEW OF THE INTERIM REPORT

The interim financial report for the six months ended 30 June 2014 has not been audited, but have been reviewed by the audit committee and KPMG, Certified Public Accountants, the 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 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.

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

Hong Kong, 22 August 2014

# Independent Review Report

## Independent 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 12 to 32 which comprises the consolidated statement of financial position of Huayu Expressway Group Limited as of 30 June 2014 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 period 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 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

## Independent Review Report

### EMPHASIS OF MATTER

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which indicates that as of 30 June 2014, the Group's current liabilities exceed its current assets by approximately HK\$779,935,000. As explained in note 1 to the interim financial report, the interim financial report has been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers, 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 about the Group's ability to continue as a going concern.

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

22 August 2014

## Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
<b>Turnover</b>	3	<b>90,389</b>	77,300
Cost of sales		<b>(33,333)</b>	(28,735)
<b>Gross profit</b>		<b>57,056</b>	48,565
Other revenue	4	<b>232</b>	381
Other net (loss)/income	4	<b>(6,065)</b>	9,735
Administrative expenses		<b>(13,541)</b>	(13,657)
<b>Profit from operations</b>		<b>37,682</b>	45,024
Finance costs	5(A)	<b>(43,042)</b>	(44,836)
<b>(Loss)/profit before taxation</b>	5	<b>(5,360)</b>	188
Income tax	6	<b>(1,052)</b>	–
<b>(Loss)/profit for the period</b>		<b>(6,412)</b>	188
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(6,270)</b>	(283)
Non-controlling interests		<b>(142)</b>	471
<b>(Loss)/profit for the period</b>		<b>(6,412)</b>	188
<b>Loss per share (HK Cents)</b>			
Basic and diluted	7	<b>1.52</b>	0.07

The notes on pages 18 to 32 form part of this interim financial report.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014 – unaudited

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<b>(Loss)/profit for the period</b>	<b>(6,412)</b>	188
<b>Other comprehensive income for the period:</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– Financial statements of a subsidiary outside Hong Kong	<b>(2,736)</b>	4,718
<b>Total comprehensive income for the period</b>	<b>(9,148)</b>	4,906
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(8,735)</b>	3,963
Non-controlling interests	<b>(413)</b>	943
<b>Total comprehensive income for the period</b>	<b>(9,148)</b>	4,906

The notes on pages 18 to 32 form part of this interim financial report.

## Consolidated Statement of Financial Position

As at 30 June 2014 – unaudited

	Note	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	21,438	24,273
Intangible asset – service concession arrangement	9	1,658,672	1,696,673
Deferred tax assets		149,973	152,471
		<b>1,830,083</b>	1,873,417
<b>Current assets</b>			
Prepayments and other receivables	10	11,834	9,352
Cash and cash equivalents	11	14,164	21,142
		<b>25,998</b>	30,494
<b>Current liabilities</b>			
Accruals and other payables	12	169,886	204,653
Amount due to a related company	17(C)	18,508	16,004
Bank loans	13	617,539	608,171
		<b>805,933</b>	828,828
<b>Net current liabilities</b>		<b>(779,935)</b>	(798,334)
<b>Total assets less current liabilities</b>		<b>1,050,148</b>	1,075,083
<b>Non-current liabilities</b>			
Bank loan	13	730,126	753,913
Amount due to the controlling shareholder of the Company	17(C)	86,579	78,579
		<b>816,705</b>	832,492
<b>NET ASSETS</b>		<b>233,443</b>	242,591

The notes on pages 18 to 32 form part of this interim financial report.

## Consolidated Statement of Financial Position

As at 30 June 2014 – unaudited

	Note	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
<b>CAPITAL AND RESERVES</b>	14		
Share capital		4,126	4,126
Reserves		201,123	209,858
<b>Total equity attributable to equity shareholders of the Company</b>		<b>205,249</b>	213,984
<b>Non-controlling interests</b>		<b>28,194</b>	28,607
<b>TOTAL EQUITY</b>		<b>233,443</b>	242,591

Approved and authorised for issue by the board of directors of the Company on 22 August 2014.

**Chan Yeung Nam**  
*Director*

**Mai Qing Quan**  
*Director*

The notes on pages 18 to 32 form part of this interim financial report.



## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 – 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		
<b>Balance at 1 January 2013</b>	4,126	130,044	502,784	49,246	(486,183)	200,017	25,986	226,003
<b>Changes in equity for the six months ended 30 June 2013:</b>								
Profit for the period	-	-	-	-	(283)	(283)	471	188
Other comprehensive income	-	-	-	4,246	-	4,246	472	4,718
Total comprehensive income	-	-	-	4,246	(283)	3,963	943	4,906
<b>Balance at 30 June 2013 and 1 July 2013</b>	4,126	130,044	502,784	53,492	(486,466)	203,980	26,929	230,909
<b>Changes in equity for the six months ended 31 December 2013:</b>								
Profit for the period	-	-	-	-	6,645	6,645	1,308	7,953
Other comprehensive income	-	-	-	3,359	-	3,359	370	3,729
Total comprehensive income	-	-	-	3,359	6,645	10,004	1,678	11,682
<b>Balance at 31 December 2013 and 1 January 2014</b>	4,126	130,044	502,784	56,851	(479,821)	213,984	28,607	242,591
<b>Changes in equity for the six months ended 30 June 2014:</b>								
Loss for the period	-	-	-	-	(6,270)	(6,270)	(142)	(6,412)
Other comprehensive income	-	-	-	(2,465)	-	(2,465)	(271)	(2,736)
Total comprehensive income	-	-	-	(2,465)	(6,270)	(8,735)	(413)	(9,148)
<b>Balance at 30 June 2014</b>	4,126	130,044	502,784	54,386	(486,091)	205,249	28,194	233,443

The notes on pages 18 to 32 form part of this interim financial report.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
<b>Operating activities</b>			
Cash generated from operations		44,805	32,045
Tax paid		–	–
<b>Net cash generated from operating activities</b>		<b>44,805</b>	<b>32,045</b>
<b>Investing activities</b>			
Payment for intangible assets		(9,066)	(4,821)
Other cash flows arising from investing activities		22	(41)
<b>Net cash used in investing activities</b>		<b>(9,044)</b>	<b>(4,862)</b>
<b>Financing activities</b>			
Repayment of bank loans		(11,074)	(1,253)
Increase in amount due to the controlling shareholder of the Company		8,000	5,242
Interest paid		(39,411)	(35,841)
<b>Net cash used in financing activities</b>		<b>(42,485)</b>	<b>(31,852)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,724)</b>	<b>(4,669)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>21,142</b>	<b>13,176</b>
<b>Effect of foreign exchange rate changes</b>		<b>(254)</b>	<b>566</b>
<b>Cash and cash equivalents at 30 June</b>	11	<b>14,164</b>	<b>9,073</b>

The notes on pages 18 to 32 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 22 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 2013 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 10 to 11.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company's registered office. In the auditors' report dated 28 March 2014, the auditors expressed an unqualified opinion on those financial statements but included an emphasis of matter paragraph drawing attention to conditions which indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 BASIS OF PREPARATION (CONTINUED)

At 30 June 2014, the Group's net current liabilities were HK\$779,935,000. The Group is dependent upon the financial support from the Group's bankers, 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 continue to indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

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

- i. the Group expects to generate positive operating cash flows for the next twelve months;
- ii. among the current liabilities, HK\$598,120,000 were bank loans which fall due in 2016 with payment on demand terms. The Group has secured a contractual right to draw down from a long-term secured bank loan facility from another bank should the loan be recalled on demand by the bank. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered in the following 12 months from 30 June 2014;
- iii. advance receipt of HK\$44,093,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;
- iv. the controlling shareholder of the Company has undertaken that repayment of advances of HK\$86,579,000 at 30 June 2014 will not be requested in the following 12 months; and
- v. the Directors are confident that the Group will be able to obtain additional bank loan facilities as and when required.

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

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*

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

#### AMENDMENTS TO HKFRS 10, HKFRS 12 AND HKAS 27, INVESTMENT ENTITIES

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

#### AMENDMENTS TO HKAS 32, OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

#### AMENDMENTS TO HKAS 36, RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group has no impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

#### HK(IFRIC) 21, LEVIES

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER

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

Turnover during the period represented revenue from operation of the expressway under the service concession arrangement and leasing of service zone. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Toll income	69,508	56,764
Rental revenue	20,881	20,536
	<b>90,389</b>	<b>77,300</b>

### 4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<b><i>Other revenue</i></b>		
Billboard rental income	210	336
Interest income from bank deposits	22	45
	<b>232</b>	<b>381</b>
<b><i>Other net (loss)/income</i></b>		
Net foreign exchange (loss)/gain	(6,071)	11,111
Change in fair value of a derivative financial instrument	–	(1,432)
Others	6	56
	<b>(6,065)</b>	<b>9,735</b>

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<b>(A) Finance costs:</b>		
Interest on bank loans	43,042	44,836
<b>(B) Staff costs:</b>		
Salaries, wages and other benefits	9,175	9,225
Contributions to defined contribution retirement plans	1,208	1,361
	<b>10,383</b>	10,586

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 HK\$30,000 (HK\$25,000 prior to June 2014). 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	
	2014 HK\$'000	2013 HK\$'000
<b>(C) Other items:</b>		
Depreciation	2,613	2,751
Amortisation (note 9)	21,934	18,189
Operating lease charges in respect of rental of office premises	372	425

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 6 INCOME TAX

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1,052)	–

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods ended 30 June 2014 and 2013.
- (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% (2013: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary possessed loss for taxation purpose during the periods ended 30 June 2014 and 2013.

### 7 LOSS PER SHARE

#### (A) BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company for the period of HK\$6,270,000 (six months ended 30 June 2013: HK\$283,000) and the weighted average number of 412,608,000 (2013: 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 2014 and 2013, therefore, diluted loss per share is equivalent to basic loss per share.

### 8 PROPERTY, PLANT AND EQUIPMENT

No items of equipments were acquired during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$422,000). No items of equipments were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2014 HK\$'000	At 31 December 2013 HK\$'000
<b>Cost:</b>		
At 1 January	2,360,532	2,288,894
Exchange adjustments	(22,456)	71,638
At 30 June/31 December	<b>2,338,076</b>	2,360,532
<b>Accumulated amortisation:</b>		
At 1 January	(66,980)	(29,242)
Charge for the period/year	(21,934)	(36,238)
Exchange adjustments	710	(1,500)
At 30 June/31 December	<b>(88,204)</b>	(66,980)
<b>Accumulated impairment loss:</b>		
At 1 January	(596,879)	(578,764)
Exchange adjustments	5,679	(18,115)
At 30 June/31 December	<b>(591,200)</b>	(596,879)
<b>Net book value:</b>		
At 30 June/31 December	<b>1,658,672</b>	1,696,673

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 9 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (CONTINUED)

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

The amortisation of intangible asset – service concession arrangement is recognised in statement of profit and 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.

During the six months ended 30 June 2014, there is no additions (six months ended 30 June 2013: Nil) or disposals recognised for intangible assets (six months ended 30 June 2013: Nil). No impairment loss is recognised during the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

#### IMPAIRMENT LOSS

The recoverable amount of the cash generating unit containing the Sui-Yue Expressway (Hunan Section) (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 2013 are average annual toll revenue growth rate over the concession period of 5%, and pre-tax discount rate of 15.8%.

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

Management did not notice 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.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
Prepayments	11,163	8,447
Other receivables	671	905
	<b>11,834</b>	<b>9,352</b>

### 11 CASH AND CASH EQUIVALENTS

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
Cash at bank and in hand	14,164	21,142
Cash and cash equivalents in the statement of financial position and cash flow statement	<b>14,164</b>	<b>21,142</b>

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 ACCRUALS AND OTHER PAYABLES

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
Construction costs payable	109,222	121,938
Advance received	44,093	66,775
Accruals	16,571	15,940
	<b>169,886</b>	204,653

Included in accruals and other payables as at 30 June 2014 are contract retention deposits payable to independent contractors of HK\$62,538,000 (2013: HK\$71,834,000), construction fees payables of HK\$46,323,000 (2013: HK\$49,739,000) and advance received of HK\$44,093,000 (2013: HK\$66,775,000). At 30 June 2014, all of the accruals and other payables are expected to be settled or recognised as income within one year (2013: advance received of HK\$22,258,000 is expected to be recognised as income after more than 1 year).

### 13 BANK LOANS

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
<i>Current liabilities</i>		
Current portion of long-term secured bank loan	19,419	14,014
Bank loan repayable on demand	598,120	594,157
	<b>617,539</b>	608,171
<i>Non-current liabilities</i>		
Long-term secured bank loan	730,126	753,913
	<b>1,347,665</b>	1,362,084

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 13 BANK LOANS (CONTINUED)

At 30 June 2014 and 31 December 2013, the bank loans were repayable as follows:

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
Within 1 year or on demand	617,539	608,171
After 1 year but within 2 years	26,359	21,020
After 2 years but within 5 years	120,717	105,101
After 5 years	583,050	627,792
	<b>1,347,665</b>	1,362,084

The Group's rights to operate the Sui-Yue Expressway (Hunan Section) and receive toll fees therefrom, have been pledged to secure the bank loan.

Bank loan repayable on demand were bank loan fall due in the year 2016 but contains repayable on demand clause.

The bank loans of the Group are subject to certain financial covenants. The Group regularly monitors its compliance with these covenants, and adheres to the timetable of the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 June 2014, none of the covenants relating to drawn down facilities had been breached (2013: Nil).

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 CAPITAL, RESERVES AND DIVIDENDS

#### (A) SHARE CAPITAL

	As at 30 June 2014		As at 31 December 2013	
	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 2014/31 December 2013	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.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (B) RESERVES (CONTINUED)

##### (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".

##### (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 2014 (2013: Nil).

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Prepayments and other receivables, accruals and other payables and bank loans are carried at cost or amortised cost which are not materially different from their fair values as at 30 June 2014.

### 16 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

At 30 June 2014, The Group had no capital commitments outstanding not provided for in the interim financial report (30 June 2013: Nil).

### 17 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:

<b>Name of party</b>	<b>Relationship</b>
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

\* 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)

### 17 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	
	2014 HK\$'000	2013 HK\$'000
Expense paid on behalf of the Group by a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	124	450
Advance from a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	2,528	–
Advance from the controlling shareholder of the Company	8,000	19,750

(C) BALANCES WITH RELATED PARTIES

As at 30 June 2014 and 31 December 2013, the Group had the following balances with related parties:

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
	Amount due to a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	18,508
Amount due to the controlling shareholder of the Company	86,579	78,579
	105,087	94,583

Balances with related parties represented advances made from related parties of the Group. These advances are unsecured and interest free.