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## **HUAYU EXPRESSWAY GROUP LIMITED**

### **華昱高速集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1823)**

#### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011**

##### **FINANCIAL HIGHLIGHTS**

- Turnover for the six months ended 30 June 2011 (the “Period”) was approximately HK\$225.8 million, representing an increase of approximately 33.4% over the corresponding period last year.
- Gross profit for the Period was approximately HK\$5.0 million, representing an increase of approximately 33.4% over the corresponding period last year.
- Loss attributable to the equity shareholders of the Company for the Period was approximately HK\$10.3 million.
- Basic and diluted loss per share for the Period amounted to HK\$0.0251.

The board of directors (the “Board”) of Huayu Expressway Group Limited (the “Company”) hereby announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010. The interim financial report for the six months ended 30 June 2011 has not been audited, but have been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the auditors of the Company.

## CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2011 — unaudited*

		<b>Six months ended 30 June</b>	
		<b>2011</b>	2010
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	3	<b>225,802</b>	169,273
Cost of construction services		<u>(220,834)</u>	<u>(165,549)</u>
<b>Gross profit</b>		<b>4,968</b>	3,724
Other revenue		<b>238</b>	973
Other net loss		<b>(215)</b>	(225)
Administrative expenses		<u>(15,606)</u>	<u>(10,469)</u>
<b>Loss before taxation</b>	4	<b>(10,615)</b>	(5,997)
Income tax credit	5	<u>208</u>	<u>96</u>
<b>Loss for the period</b>		<b><u>(10,407)</u></b>	<b><u>(5,901)</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(10,340)</b>	(5,564)
Non-controlling interests		<u>(67)</u>	<u>(337)</u>
<b>Loss for the period</b>		<b><u>(10,407)</u></b>	<b><u>(5,901)</u></b>
<b>Loss per share (HK\$)</b>			
Basic and diluted	6	<b><u>(0.0251)</u></b>	<b><u>(0.0137)</u></b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2011 — unaudited*

	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the period</b>	<b>(10,407)</b>	<b>(5,901)</b>
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	<u>13,454</u>	<u>2,667</u>
<b>Total comprehensive income for the period</b>	<b><u>3,047</u></b>	<b><u>(3,234)</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<u>1,768</u>	<u>(3,164)</u>
Non-controlling interests	<u>1,279</u>	<u>(70)</u>
<b>Total comprehensive income for the period</b>	<b><u>3,047</u></b>	<b><u>(3,234)</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 30 June 2011 — unaudited*

		At 30 June 2011 <i>HK\$'000</i>	At 31 December 2010 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		1,637	1,845
Intangible asset — service concession arrangement		1,258,876	1,007,258
Deferred tax assets		2,218	1,967
		<u>1,262,731</u>	<u>1,011,070</u>
<b>Current assets</b>			
Prepayments and other receivables		103,674	85,301
Cash and cash equivalents		81,359	157,226
		<u>185,033</u>	<u>242,527</u>
<b>Current liabilities</b>			
Accruals and other payables	7	182,417	108,743
Amount due to a related company		717	424
		<u>183,134</u>	<u>109,167</u>
<b>Net current assets</b>		<u>1,899</u>	<u>133,360</u>
<b>Total assets less current liabilities</b>		<u>1,264,630</u>	<u>1,144,430</u>
<b>Non-current liabilities</b>			
Long-term secured bank loan		<u>565,363</u>	<u>448,210</u>
<b>NET ASSETS</b>		<u>699,267</u>	<u>696,220</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		4,126	4,126
Reserves		625,990	624,222
<b>Total equity attributable to equity shareholders of the company</b>		<u>630,116</u>	<u>628,348</u>
<b>Non-controlling interests</b>		<u>69,151</u>	<u>67,872</u>
<b>TOTAL EQUITY</b>		<u>699,267</u>	<u>696,220</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 BASIS OF PRESENTATION AND PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, adopted by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 15 August 2011.

The interim financial report has also been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 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 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2010 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 2010 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2011.

### 2 CHANGES IN ACCOUNTING POLICIES

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

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

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

The developments related primarily to clarification of certain disclosure requirements applicable to the Group’s financial statements. These developments have had no material impact on the contents of this interim financial report.

### 3 TURNOVER

The principal activities of the Group are construction, operation and management of an expressway in the PRC. During the period, the expressway was under construction and has not commenced operation. Turnover during the period represented revenue from construction work and project management services under the service concession arrangement.

### 4 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
(a) Staff costs:		
Salaries, wages and other benefits	7,275	4,015
Contributions to defined contribution retirement plans	<u>418</u>	<u>35</u>
	<b><u>7,693</u></b>	<b><u>4,050</u></b>

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (“the Scheme”) organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme at a fixed rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the schemes referred to above beyond the annual contributions described above.

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
(b) Other items:		
Depreciation	266	208
Operating lease charges in respect of rental of office premises	<u>579</u>	<u>516</u>

## 5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Six months ended 30 June

2011                      2010  
\$'000                      \$'000

### Deferred tax

Origination and reversal of temporary differences (208)                      (96)

- (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 2011 and 2010.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiary in the PRC is liable to PRC corporate income tax at a rate of 25% (2010: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the group did not have assessable profits subject to PRC corporate income tax during the periods ended 30 June 2011 and 2010.

## 6 LOSS PER SHARE

- (a) Loss per share

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the company for the period of \$10,340,000 (six months ended 30 June 2010: \$5,564,000) and the weighted average number of 412,608,000 (2010: 406,790,000) 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 2011 and 2010, therefore, diluted loss per share is equivalent to basic loss per share.

## 7. ACCRUALS AND OTHER PAYABLES

	At 30 June 2011 \$'000	At 31 December 2010 \$'000
Construction payables	85,218	99,170
Accruals	6,981	9,573
Advance received	90,218	—
	<u>182,417</u>	<u>108,743</u>

Included in accruals and other payables as at 30 June 2011 are contract retention deposits to independent contractors of HK\$58,378,000 which are expected to be settled after more than one year. The advance received expected to be recognised as income after more than 1 year is HK\$69,167,000. All of the remaining accruals and other payables are expected to be settled within one year.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Turnover and cost of construction services**

Turnover of the Group represented revenue from construction work and project management under the Concession Agreement. For the six months ended 30 June 2011, the Group recorded a turnover of approximately HK\$225.8 million, increased by about 33.4% from the corresponding period last year of approximately HK\$169.3 million. With the increase in the major construction work of the Sui-Yue Expressway (Hunan Section), the Group has increased the investment in the project. Up to 30 June 2011, total investment in the project was approximately HK\$1,258.9 million.

During the period, the expressway was under construction and has not commenced operation. There was no real cash inflow realized/realizable during the construction phrase. Accordingly, turnover recorded by the Group is not cash revenue.

#### **Income tax credit and loss for the period**

As the Group made further progress in the Sui-Yue Expressway (Hunan Section) project, we incurred more expenses. However, the Group still not commenced toll road operation in the period. Accordingly, our loss for the six months ended 30 June 2011 increased by 76.4% from approximately HK\$5.9 million for the corresponding period last year to approximately HK\$10.4 million.

#### **Liquidity and financial resources**

During the six months ended 30 June 2011, the Group financed its operations and capital expenditures by the internal resources of the Company and long term bank loans. As at 30 June 2011, total bank loan drawn by the Group was about HK\$565.4 million and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to HK\$81.4 million.

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operation future development demands for capital. As at 30 June 2011, total available banking facilities of the Group amounted to be RMB1.10 billion from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway (Hunan Section), among of which the amount of outstanding bank borrowings was HK\$565.4 million. The ratio of total outstanding bank borrowings to equity attributable to shareholders was 89.7%. (As at 31 December 2010: 71.3%)

During the period, the Group has not entered into any interest swap arrangement to hedge against interest rate risks.



## **FINANCIAL REVIEW** *(Continued)*

### **Employees and emoluments**

As at 30 June 2011, the Group employed a total of 53 (2010: 53) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the six month ended 30 June 2011, the Group's total expenses on the remuneration of employees was approximately HK\$7.7 million (2010: HK\$4.1 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

### **Foreign exchange risk**

The Group 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.

During the six months ended 30 June 2011, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

### **Pledge of assets**

The banking facilities of RMB1.1 billion from China Merchants Bank was secured by the pledge of the right of receiving tolls in relation to the Sui-Yue Expressway (Hunan Section), when such right is obtained by the Group.

## **BUSINESS REVIEW**

### **Sui-Yue Expressway (Hunan Section)**

The Sui-Yue Expressway (Hunan Section) is a dual three-lane expressway with a planned length of approximately 24.08km and will be connecting the southern end of the Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the existing Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau. It is currently under construction and is planned to be completed by the end of this year. The Group will then operate the Sui-Yue Expressway (Hunan Section) once it is completed and open to traffic pursuant to the Concession Agreement under which the Group will have concession period of 27 years from the date of completion.

The construction of the project was in a more advance stage for the six months ended 30 June 2011. According to the construction plan and the present condition, the Group is confident that it can be completed by the end of this year and can commence operation in 2012.

## **BUSINESS REVIEW** *(Continued)*

### **Future plans and prospects**

On 12 April 2011, the Company entered into a share purchase agreement with Mr. Chan Yeung Nam, the Chairman and a substantial shareholder of the Company, to acquire the entire issued share capital of Sumgreat Investments Limited. The consideration for the acquisition is HK\$1.0 billion and shall be satisfied entirely by the allotment and issue of 780,000,000 ordinary shares at an issue price of HK\$1.28 per share.

Sumgreat Investments Limited and its subsidiaries (the “Target Group”) currently has two infrastructure projects, namely the Shuigang Expressway and Shuigang Expressway Extension Line, which are both already in operation and revenue generating. It is also receiving fees for the provision of project management services in respect of the Shahe Road Project and the Hengping Road Project. As such, it is expected that the acquisition will enable the Company to derive immediate substantial earnings and cash flow contribution from it. In addition, it is expected that two further infrastructure projects which are currently under construction by the Target Group, namely the Shenzhen Qingping Expressway and Shenzhen Eastern Expressway, will be in operation by 2013 and 2014 respectively and will contribute additional cash flow to the Group.

In order to fulfill one of the conditions under the share purchase agreement, the Board of Directors of the Company also announced on 12 April 2011 that, the Company intends to issue and place to independent third parties approximately 780,000,000 new shares at a price of approximately HK\$1.28 per placing share.

At the extraordinary general meeting held on 15 July 2011, both resolutions about the share purchase agreement and the specific mandate for the placing of shares were approved by the shareholders of the Company. The group is now working on the other conditions about the acquisition and expects the completion of the acquisition in near future.

In accordance with our development strategy, the Group will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we might also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares for the six months ended 30 June 2011.

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company had complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 June 2011.

### **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 2011. The audit committee considered that the consolidated results of the Group for the six months ended 30 June 2011 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code adopted by the Company throughout the period under review.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT**

This announcement is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.huayu.com.hk](http://www.huayu.com.hk)), and the 2011 Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

By Order of the Board  
**Huayu Expressway Group Limited**  
**Chan Yeung Nam**  
*Chairman*

Hong Kong, 15 August 2011

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