

# HUAYU EXPRESSWAY GROUP LIMITED

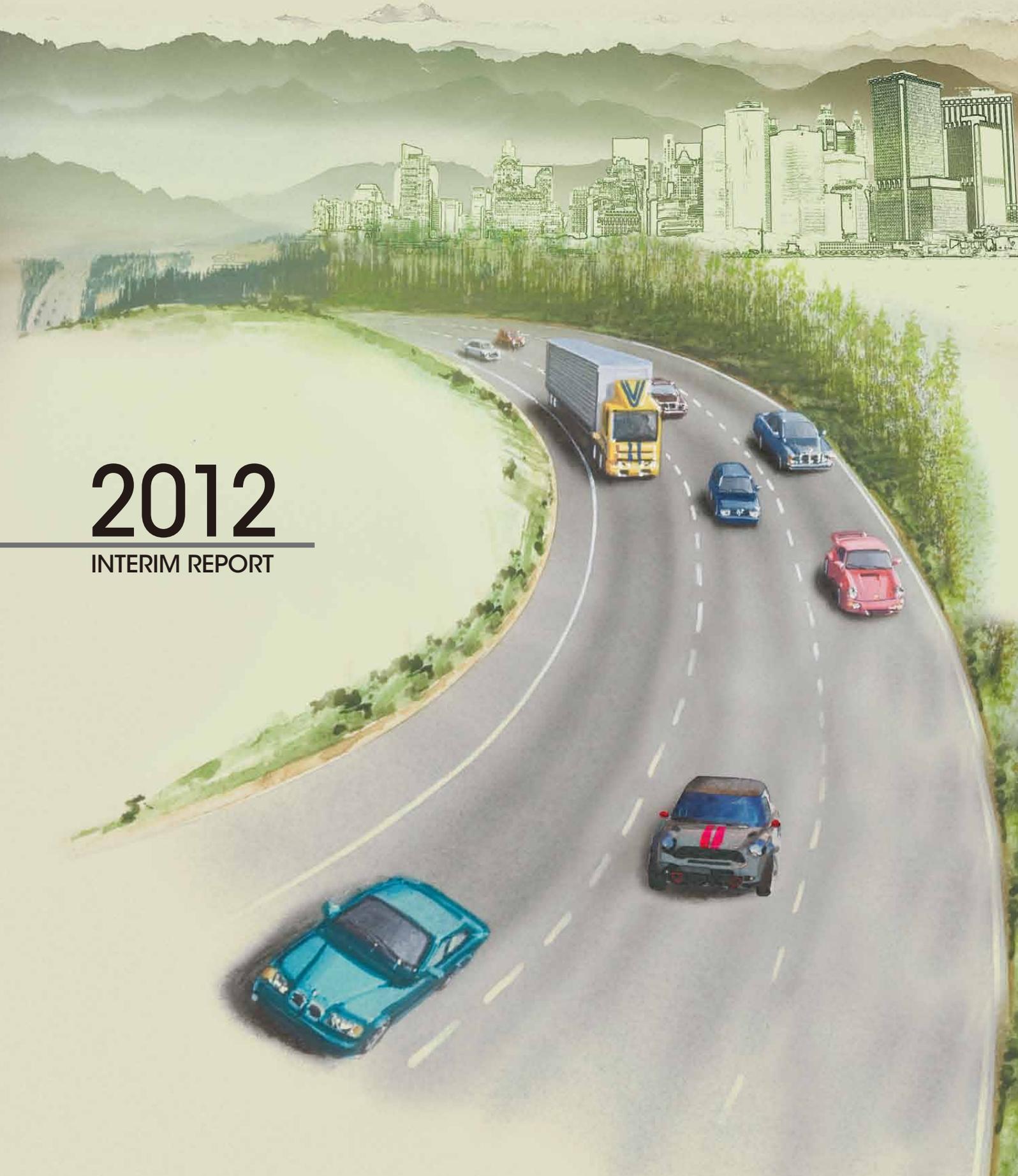
## 華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1823

# 2012

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  
Chen Min Yong  
Mao Hui

#### 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

Room 919, 9/F  
China Merchants Tower  
Shun Tak Centre  
Sheung Wan  
Hong Kong

### CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman  
KY1-1107  
Cayman Islands

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26/F Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### AUDITORS

KPMG  
Certified Public Accountants

### LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

### 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

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

### COST AND GROSS PROFIT

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

### IMPAIRMENT LOSS

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

### FINANCE COSTS

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

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

### EMPLOYEES AND EMOLUMENTS

As at 30 June 2012, the Group employed a total of 221 (As at 31 December 2011: 200) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. The increase in number of staff was mainly due to the recently hired staff for the toll road operation after the commencement of the operation of the Expressway. For the six month ended 30 June 2012, the Group's total expenses on the remuneration of employees was approximately HK\$9.5 million (2011: HK\$7.7 million).

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

### FOREIGN EXCHANGE RISK

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

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

# Management Discussion and Analysis

## PLEDGE OF ASSETS

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

## BUSINESS REVIEW

### SUI-YUE EXPRESSWAY (HUNAN SECTION)

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

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

### FUTURE PLANS AND PROSPECTS

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

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

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

## Corporate Governance and Other Information

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

As at 30 June 2012, 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 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/ Chief Executive	Nature of Interest	Number and class of securities <sup>(1)</sup>	Approximate percentage of interest in such corporation
Chan Yeung Nam	Interest of controlled corporation <sup>(2)</sup> and Beneficial Owner	L 300,000,000	72.71%

Notes:

- The Letter "L" denotes the person's long position in such Shares.
- Mr. Chan Yeung Nam, an executive Director and Chairman of the Board, is taken to be interested in 300,000,000 Shares held by Velocity International Limited.

Apart from the forgoing, as at 30 June 2012, 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 Hong Kong 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 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.

Since the 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 2012, so far as it 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% of 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 Directors/ Chief Executive</b>	<b>Nature of Interest</b>	<b>Number and class of securities<sup>(1)</sup></b>	<b>Approximate percentage of interest in such corporation</b>
Velocity International Limited	Beneficial Owner	L 300,000,000	72.71%
Chan Yeung Nam	Interest of controlled corporation <sup>(2)</sup> and Beneficial Owner	L 300,000,000	72.71%

Notes:

- The Letter “L” denotes the person’s long position in such Shares.
- Mr. Chan Yeung Nam, an executive Director and Chairman of the Board, is taken to be interested in 300,000,000 Shares held by Velocity International Limited.

## Corporate Governance and Other Information

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the six months ended 30 June 2012.

### **CORPORATE GOVERNANCE**

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

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

### **AUDIT COMMITTEE**

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee is composed of three independent non-executive directors of the Company, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the six months ended 30 June 2012. The audit committee considered that the consolidated results of the Group for the six months ended 30 June 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

### **REVIEW OF THE INTERIM REPORT**

The interim financial report for the six months ended 30 June 2012 has not been audited, but have been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the auditors of the Company.

## Corporate Governance and Other Information

### 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, 29 August 2012

# 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 11 to 32 which comprises the consolidated statement of financial position of Huayu Expressway Group Limited as at 30 June 2012 and the related consolidated income statement, statement of 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 (“HKAS”) 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 HKAS 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 2012 is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

### KPMG

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

29 August 2012

# Consolidated Income Statement

For the six months ended 30 June 2012 – unaudited

	Note	Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000
<b>Turnover</b>	3	<b>42,996</b>	225,802
Cost		<b>(22,074)</b>	(220,834)
<b>Gross profit</b>		<b>20,922</b>	4,968
Other revenue	4	<b>72</b>	238
Other net loss	4	<b>(3,671)</b>	(215)
Administrative expenses		<b>(14,264)</b>	(15,606)
Impairment loss	9	<b>(13,609)</b>	–
<b>Loss from operations</b>		<b>(10,550)</b>	(10,615)
Finance costs	5	<b>(48,208)</b>	–
<b>Loss before taxation</b>	5	<b>(58,758)</b>	(10,615)
Income tax credit	6	<b>6,453</b>	208
<b>Loss for the period</b>		<b>(52,305)</b>	(10,407)
<b>Attributable to:</b>			
Equity shareholders of the company		<b>(47,599)</b>	(10,340)
Non-controlling interests		<b>(4,706)</b>	(67)
<b>Loss for the period</b>		<b>(52,305)</b>	(10,407)
<b>Loss per share (HK Cents)</b>			
Basic and diluted	7	<b>(11.54)</b>	(2.51)

The accompanying notes form part of this interim financial report.

## Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 – unaudited

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

The accompanying notes form part of this interim financial report.

# Consolidated Statement of Financial Position

At 30 June 2012 – unaudited

	Note	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	3,710	2,367
Intangible asset - service concession arrangement	9	1,938,201	1,936,165
Deferred tax assets		72,417	66,341
		<b>2,014,328</b>	2,004,873
<b>Current assets</b>			
Prepayments and other receivables	10	66,527	13,226
Cash at bank and in hand	11	35,759	168,223
		<b>102,286</b>	181,449
<b>Current liabilities</b>			
Derivative financial instrument		762	335
Accruals and other payables	12	343,393	420,755
Amount due to a related company	16(c)	1,763	1,300
Bank loans	13	599,514	584,712
		<b>945,432</b>	1,007,102
<b>Net current liabilities</b>		<b>(843,146)</b>	(825,653)
<b>Total assets less current liabilities</b>		<b>1,171,182</b>	1,179,220
<b>Non-current liabilities</b>			
Bank loan	13	671,005	629,085
Amount due to the controlling shareholder of the Company	16(c)	42,853	37,683
		<b>713,858</b>	666,768
<b>NET ASSETS</b>		<b>457,324</b>	512,452

## Consolidated Statement of Financial Position

At 30 June 2012 – unaudited

	Note	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
<b>CAPITAL AND RESERVES</b>	14		
Share capital		4,126	4,126
Reserves		404,685	454,825
<b>Total equity attributable to equity shareholders of the company</b>		<b>408,811</b>	458,951
<b>Non-controlling interests</b>		<b>48,513</b>	53,501
<b>TOTAL EQUITY</b>		<b>457,324</b>	512,452

Approved and authorised for issue by the board of directors on 29 August 2012.

**Chan Yeung Nam**  
*Directors*

**Mai Qing Quan**  
*Directors*

The accompanying notes form part of this interim financial report.

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 – 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)	Note 14(b)(i)	Note 14(b)(ii)	Note 14(b)(iii)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>Balance at 1 January 2011</b>	4,126	130,044	502,784	21,051	(29,657)	628,348	67,872	696,220
<b>Changes in equity for the six months ended 30 June 2011:</b>								
Total comprehensive income for the period	-	-	-	12,108	(10,340)	1,768	1,279	3,047
<b>Balance at 30 June 2011</b>	4,126	130,044	502,784	33,159	(39,997)	630,116	69,151	699,267
<b>Balance at 1 July 2011</b>	4,126	130,044	502,784	33,159	(39,997)	630,116	69,151	699,267
<b>Changes in equity for the six months ended 31 December 2011:</b>								
Capital injection by non-controlling interests to a subsidiary	-	-	-	-	-	-	2,530	2,530
Total comprehensive income for the period	-	-	-	16,295	(187,460)	(171,165)	(18,180)	(189,345)
<b>Balance at 31 December 2011 and 1 January 2012</b>	4,126	130,044	502,784	49,454	(227,457)	458,951	53,501	512,452
<b>Changes in equity for the six months ended 30 June 2012:</b>								
Total comprehensive income for the period	-	-	-	(2,541)	(47,599)	(50,140)	(4,988)	(55,128)
<b>Balance at 30 June 2012</b>	4,126	130,044	502,784	46,913	(275,056)	408,811	48,513	457,324

The accompanying notes form part of this interim financial report.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 – unaudited

	Note	Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000
Cash generated from operations		20,964	77,455
Tax paid		–	–
Net cash generated from operating activities		20,964	77,455
Net cash used in investing activities		(170,928)	(261,891)
Net cash generated from financing activities		16,102	106,665
Net decrease in cash and cash equivalents		(133,862)	(77,771)
Cash and cash equivalents at 1 January		159,588	157,226
Effect of foreign exchange rate changes		1,446	1,904
Cash and cash equivalents at 30 June	11	27,172	81,359

The accompanying notes 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 PRESENTATION AND PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, adopted by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 29 August 2012.

The interim financial report has also been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). KPMG’s independent review report to the Board of Directors is included on page 10.

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

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2012.

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 BASIS OF PRESENTATION AND PREPARATION (CONTINUED)

At 30 June 2012, the group's net current liabilities were \$843,146,000. The directors had made an assessment and concluded that the group is able to continue as a going concern for at least the next twelve months and to meet their obligations, as and when they fall due, having regard to the following:

- i the group expects to generate positive operating cash flows for the next twelve months;
- ii based on the cash flow forecast, the group expects to comply with bank covenants and meet scheduled repayment obligations in the next twelve months and does not consider it probable that the lender of the group's long term loan repayable on demand of \$598,287,000 will exercise its discretion to demand repayment in the next twelve months;
- iii the group had unutilised bank facilities of \$77,138,000 at 30 June 2012;
- iv at 30 June 2012, the group's contract retention deposits of \$70,378,000 is expected to be settled after more than 1 year, and advance receipt of \$128,804,000 is expected to be recognised as income;
- v the controlling shareholder of the company undertakes that repayment of advances of \$42,853,000 at 30 June 2012 will not be requested in the next twelve months.

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

## 2 CHANGES IN ACCOUNTING POLICIES

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

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER

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

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

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

### 4 OTHER REVENUE AND NET LOSS

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
<b>Other revenue</b>		
Interest income from bank deposits	72	238
<b>Other net loss</b>		
Net foreign exchange loss	(3,244)	(215)
Change in fair value of a derivative financial instrument	(427)	–
	<b>(3,671)</b>	(215)

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

## 5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

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

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

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

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

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

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

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 5 LOSS BEFORE TAXATION (CONTINUED)

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
(c) Other items:		
Depreciation	406	266
Amortisation (note 9)	13,790	–
Impairment loss of intangible asset (note 9)	13,609	–
Operating lease charges in respect of rental of office premises	743	579

### 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(6,453)	(208)

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the group did not have assessable profits subject to Hong Kong Profits Tax during the periods ended 30 June 2012 and 2011.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiary in the PRC is liable to PRC corporate income tax at a rate of 25% (2011: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the group did not have assessable profits subject to PRC corporate income tax during the periods ended 30 June 2012 and 2011.
- (iv) The deferred tax assets recognised during the period were resulted from additional impairment loss and unused tax losses.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 LOSS PER SHARE

#### (A) LOSS PER SHARE

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

#### (B) DILUTED LOSS PER SHARE

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

### 8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the group acquired items of equipments with a cost of \$1,767,000 (six months ended 30 June 2011: \$26,000). No items of equipments were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: \$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 2012 \$'000	At 30 June 2011 \$'000
<b>Cost:</b>		
At 1 January	2,211,923	1,007,258
Additions	40,200	227,976
Exchange adjustments	(12,334)	23,642
At 30 June	2,239,789	1,258,876
<b>Accumulated amortisation:</b>		
At 1 January	(294)	–
Charge for the year	(13,790)	–
Exchange adjustments	50	–
At 30 June	(14,034)	–
	At 30 June 2012 \$'000	At 30 June 2011 \$'000
<b>Accumulated impairment loss:</b>		
At 1 January	(275,464)	–
Impairment loss	(13,609)	–
Exchange adjustments	1,519	–
At 30 June	(287,554)	–
<b>Net book value:</b>		
At 30 June	1,938,201	1,258,876

## 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.

During the period, the group recorded revenue of approximately \$1,234,000 (six months ended 30 June 2011: \$225,802,000), representing the fair value of the construction work (excluded land collection costs) and project management services provided, with the same amounts recognised as intangible asset – service concession arrangement.

The group recognised land collection costs of \$38,966,000 (six months ended 30 June 2011: \$2,174,000) during the period as intangible asset – service concession arrangement.

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

#### 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 post-tax discount rate. 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.

During the 2012 interim reporting period, the board of directors have been closely monitoring changes in such key assumptions and noticed that the Ministry of Transport was studying the implementation of a toll-free policy for small passenger vehicles on certain public holidays. Subsequently, on 2 August 2012, the State Council announced the Toll-Free on Major Festivals and Holidays for Small Passenger Vehicles Implementation Policy (《重大節假日免收小型客車通行費實施方案》) ("Holiday Toll-Free Policy"). Pursuant to the Holiday Toll-Free Policy, small passenger vehicles with 7 seats or fewer would be entitled to use certain toll roads, including the Expressway, during major statutory holidays in the PRC free of charge.

The board of directors have assessed the impact of the Holiday Toll-Free Policy on the toll revenue of the Expressway operated by the Group and estimated there would be a decrease in toll revenue of 2% annually resulting from the implementation of the Holiday Toll-Free Policy. Consequently, the carrying amount of the intangible asset - service concession arrangement related to the Expressway was written down by \$13,609,000 (included in the consolidated income statement).

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Prepayments	65,550	12,218
Other receivables	977	1,008
	<b>66,527</b>	<b>13,226</b>

### 11 CASH AT BANK AND IN HAND

Cash at bank and in hand comprise:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Cash and cash equivalents	27,172	159,588
Restricted bank deposits for interest rate swap of maturity of more than 3 months	8,587	8,635
	<b>35,759</b>	<b>168,223</b>

### 12 ACCRUALS AND OTHER PAYABLES

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

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 ACCRUALS AND OTHER PAYABLES (CONTINUED)

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

### 13 BANK LOANS

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
<b>Current liabilities</b>		
Current portion of long-term secured bank loan	1,227	–
Non-current portion of bank loan repayable on demand	598,287	584,712
	<b>599,514</b>	584,712
<b>Non-current liabilities</b>		
Long-term secured bank loan	671,005	629,085
	<b>1,270,519</b>	1,213,797

The directors had made an assessment and conclude that based on the cash flow forecast, the group expected to comply with bank covenants and meet schedule repayment obligations in the next twelve months, the lender will not exercise its discretion to demand repayment of \$598,287,000 (classified as current liability) in the next twelve months.

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 13 BANK LOANS (CONTINUED)

At 30 June 2012, the bank loans were repayable as follows:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Within 1 year	1,227	–
After 1 year but within 2 years	611,781	597,047
After 2 years but within 5 years	114,083	111,015
After 5 years	543,428	505,735
	<b>1,270,519</b>	1,213,797

The amounts of banking facilities available and the utilisation at 30 June 2012 and 31 December 2011 are set out as follows:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Facility amount available	77,138	127,765
Amounts utilised	1,272,232	1,229,085
Facility amount (Face value)	<b>1,349,370</b>	1,356,850

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.

The bank loans of the group are subject to certain financial covenants. In addition, one of the group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the group has complied with the covenants and met the scheduled repayment obligations. Accordingly, this portion of bank loan is classified as current liabilities.

The group regularly monitors its compliance with these covenants is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the group continues to meet these requirements. As at 30 June 2012, none of the covenants relating to drawn down facilities had been breached (2011: 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 2012		As at 31 December 2011	
	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 2012/31 December 2011	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 \$513,388,000. The difference between the assigned receivable balances over the nominal value of \$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 directors do not propose the payment of interim dividend for the six months ended 30 June 2012 (2011: Nil).

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 COMMITMENTS

#### (A) OPERATING LEASE COMMITMENTS

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2012 \$'000</b>	At 31 December 2011 \$'000
Within 1 year	875	804
After 1 year but within 5 years	437	875
	<b>1,312</b>	1,679

The group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years with an option to renew the leases upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

#### (B) CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2012 not provided for in the financial statements were as follows:

	<b>At 30 June 2012 \$'000</b>	At 31 December 2011 \$'000
Construction contracted for	–	92,765

The capital commitments represent the costs for the construction of the Sui-Yue Expressway (Hunan Section).

## Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

### 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

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

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

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Expense paid by a related company on behalf of the group	(665)	(280)
Advance from the controlling shareholder of the company	(5,170)	–

# Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

## 16 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (C) BALANCES WITH RELATED PARTIES

As at the 30 June 2012 and 31 December 2011, the group had the following balances with related parties:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Amount due to related parties		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	(1,763)	(1,300)
– Controlling shareholder of the company	(42,853)	(37,683)
	<b>(44,616)</b>	<b>(38,983)</b>

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

### (D) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel of the group, including amounts paid to the company's directors is as follows:

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Basic salaries, allowances and other benefits in kind	4,510	3,968
Contributions to defined contribution retirement scheme	72	69
	<b>4,582</b>	<b>4,037</b>

Total remuneration is included in "staff costs" (see note 5(a)).