

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

Annual Report **2016**

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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

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

AUDITORS

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

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson Wong & Co.
4/F, 5/F & 1602,
Central Tower,
28 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Financial Summary

For the year ended 31 December

RESULTS	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Revenue	138,972	180,624	184,324	167,758	138,908
(Loss)/profit before taxation	(1,860)	(197,423)	570	9,878	(369,420)
Income tax	(8,351)	(2,085)	(2,068)	(1,737)	83,202
(Loss)/profit for the year	(10,211)	(199,508)	(1,498)	8,141	(286,218)
Attributable to:					
Equity shareholders of the Company	(10,477)	(180,707)	(2,351)	6,362	(258,726)
Non-controlling interests	266	(18,801)	853	1,779	(27,492)
	(10,211)	(199,508)	(1,498)	8,141	(286,218)

At 31 December

ASSETS AND LIABILITIES	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Total assets	1,423,080	1,548,780	1,847,026	1,903,911	1,892,914
Total liabilities	(1,414,623)	(1,524,177)	(1,606,873)	(1,661,320)	(1,666,911)
	8,457	24,603	240,153	242,591	226,003
Attributable to:					
Equity shareholders of the Company	(202)	15,629	210,786	213,984	200,017
Non-controlling interests	8,659	8,974	29,367	28,607	25,986
	8,457	24,603	240,153	242,591	226,003

Chairman Statement

On behalf of the board of directors (the “Board”) of Huayu Expressway Group Limited (the “Company”), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016.

During the year ended 31 December 2016, political uncertainties prevailed around the world and the economic growth of the People’s Republic of China (the “PRC”) continued to slow down, resulting in downward pressure on the exchange rate of the Renminbi (“RMB”) having significant impact in different industries in varying degrees. In addition, with the strict traffic restrictions in Hunan Province and the continuous construction works around the Siu-Yue Expressway (Hunan Section) (the “Sui-Yue Expressway”), the result of 2016 was below our expectation. The revenue of the Group dropped by 23.1% to about HK\$139.0 million for the year ended 31 December 2016. As a result, the Group incurred a loss for the year of approximately HK\$10.2 million.

For the Sui-Yue Expressway, although the monthly average traffic for the year ended 31 December 2016 increased significantly by 12.1% to about 436,000 vehicles per month from about 389,000 vehicles per month for the year ended 31 December 2015, the total amount of the toll fee revenue dropped to about HK\$139.0 million. Due to the traffic restriction regarding the over-loaded vehicles, average toll per vehicle for the year ended 31 December 2016 decreased substantially by about 23.4% to approximately HK\$22.9 per vehicle from HK\$29.9 per vehicle for the year ended 31 December 2015.

Despite the recent slowdown in the growth of the PRC economy, we are still confident of the future economic performance of PRC, especially in Hunan Province. With the new connections to the adjacent expressways in the future, we are optimistic about the prospect of the Sui-Yue Expressway. The opening of Hang-Rui Expressway Hunan Section and Yue-Wang Expressway will connect the Sui-Yue Expressway to the whole expressway network in Hunan Province and more traffic will be leaded to the Sui-Yue Expressway. We are expecting a significant increase in the traffic flow in the coming years.

Although we are currently engaged in one expressway project, our prospects are not limited to that extent. In accordance with our strategy, we will pursue other infrastructure projects in 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. Furthermore, we will also consider extending our operation to include other prosperous business once favourable opportunity appears.

Chan Yeung Nam

Chairman

Hong Kong, 30 March 2017

Management Discussion And Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the implementation of the traffic restrictions in Hunan Province regarding over-loaded vehicles, total revenue decreased substantially during the year ended 31 December 2016. In addition, the rental income from the service area along the Sui-Yue Expressway decreased significantly for the year ended 31 December 2016. The Group incurred a loss of the year of about HK\$10.2 million.

TURNOVER

For the year ended 31 December 2016, the Group recorded a turnover of approximately HK\$139.0 million, decreased by 23.1% from that for the year ended 31 December 2015 of approximately HK\$180.6 million. The total amount of toll fee revenue of the Sui-Yue Expressway was about HK\$119.7 million, decreased by 14.2% from about HK\$139.5 million for the year ended 31 December 2015. The average traffic of the Sui-Yue Expressway was about 436,000 vehicles per month, increased by 12.1% from about 389,000 vehicles per month for the year ended 31 December 2015. However, the average toll per vehicle decreased substantially by about 23.4% from about HK\$29.9 per vehicle for the year ended 31 December 2015 to about HK\$22.9 per vehicle for the year ended 31 December 2016. The implementation of traffic restrictions in Hunan Province regarding over-loaded vehicles, including measures to increase the toll rate for the overloading portion of trucks and imposing higher penalty for the traffic violation, significantly reduced the numbers of over-loaded vehicles and the average toll fee per vehicle under the toll-by-weight charging system.

Rental income from the service area along the Sui-Yue Expressway was about HK\$19.3 million, decreased by 53.0% from about HK\$41.1 million for the year ended 31 December 2015. The Group renewed the lease for the service area along the Sui-Yue Expressway. Since there is some inception concession arrangement for the service area along the Sui-Yue Expressway, the rental income for the first few years will be lower than the average rental for the entire lease term.

GROSS PROFIT

The Group had a gross profit of HK\$89.8 million for the year ended 31 December 2016, decreased by 15.7% from about HK\$106.5 million for the year ended 31 December 2015. The decrease in gross profit was mainly because of the contraction of revenue during the year ended 31 December 2016.

The gross profit ratios were about 64.6% and 58.9% for the year ended 31 December 2016 and 2015 respectively. The increase in the gross profit ratio was mainly due to the decrease in the amortisation of intangible asset – service concession arrangement, details of which can be referred to in note 2(a) under “Notes To The Financial Statements” in page 58 of this annual report.

Management Discussion And Analysis

OTHER REVENUE AND OTHER NET LOSS

The Group recorded other revenue and other net loss of approximately HK\$0.4 million and HK\$0.4 million respectively for the year ended 31 December 2016 compared to other revenue and other net loss of approximately HK\$0.6 million and HK\$37.6 million for the year ended 31 December 2015. Other revenue of the Group was mainly the rental income from the billboard along the Sui-Yue Expressway and interest income from bank deposits. Other net loss mainly represented the exchange loss recorded in the books of a PRC subsidiary from the year end translation of a Hong Kong dollar denominated bank loan to RMB. Since the loan was replaced by a RMB denominated bank loan in February 2016 in order to reduce the currency risk exposure of the Group, other net loss decreased substantially during the year ended 31 December 2016.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2016 were approximately HK\$27.1 million, increased by 12.2% from approximately HK\$24.1 million for the year ended 31 December 2015. The increase was mainly because of the increased office rental in Hong Kong.

IMPAIRMENT LOSS OF INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group has made contractual service arrangement with local government authorities for its participation in the construction, operation and management of the Sui-Yue Expressway. According to the accounting policy of the Group, internal and external sources of information are reviewed at the end of each reporting period to identify indications that the assets may be impaired. As at 31 December 2016, there is no material discrepancy between the recoverable amount and the carrying value of the intangible asset. Therefore, no impairment loss was made for the year ended 31 December 2016.

FINANCE COSTS

For the year ended 31 December 2016, the finance costs of the Group were about HK\$64.5 million, decreased by 23.9% from approximately HK\$84.8 million for the year ended 31 December 2015. The decrease was mainly due to the partial repayment of the bank loans and the fluctuation of effective bank loan interest rate.

LOSS FOR THE YEAR

The Group recorded a loss for the year of approximately HK\$10.2 million for the year ended 31 December 2016. As the Group did not incur significant amounts of impairment loss of intangible asset and exchange losses as for the year ended 31 December 2015, the loss for the year decreased substantially from HK\$199.5 million for the year ended 31 December 2015.

Management Discussion And Analysis

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2016, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loans and interest free loan from the controlling shareholder of the Company. As at 31 December 2016, total bank loans drawn by the Group were about HK\$1,137.7 million (2015: HK\$1,290.8 million), the amount due to the controlling shareholder of the Company was HK\$109.0 million (2015: HK\$99.1 million), the amount due to a related party of the Company was HK\$106.7 million (2015: HK\$14.3 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK\$10.8 million (2015: HK\$9.1 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 for future development. As at 31 December 2016, total available banking facilities of the Group amounted to HK\$1,229.7 million from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway, among which the outstanding secured bank loan was HK\$1,137.7 million (2015: HK\$1,290.8 million). The ratio of outstanding bank loans to total equity was 13,453.2% (2015: 5,246.3%).

As at 31 December 2016, the bank loans repayable are as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 year or on demand	69,121	629,278
After 1 year but within 2 years	73,687	32,877
After 2 years but within 5 years	268,296	138,084
After 5 years	726,635	490,513
	1,137,739	1,290,752

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2016, the Group did not enter into any hedging arrangements to hedge against exposure in interest risk.

FOREIGN CURRENCY RISK

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 31 December 2016, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group, the management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Management Discussion And Analysis

PLEDGE OF ASSETS

As at 31 December 2016, the bank loans of HK\$1,137.7 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Sui-Yue Expressway.

CAPITAL COMMITMENTS

As at 31 December 2016, there was no material capital commitment outstanding for the Company.

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

The continuous specific traffic restrictions in Hunan Province regarding motor vehicles, including measures to increase the toll rate for the overloading portion of trucks and impose higher penalty for traffic violations, adversely affected our average toll per vehicles under the toll-by-weight charging system. The average toll revenue per vehicles decreased from about HK\$29.9 for the year ended 31 December 2015 to about HK\$22.9 for the year ended 31 December 2016. As a result, the total toll revenue, which was approximately HK\$139.5 million for the year ended 31 December 2015, decreased by about 14.2% to approximately HK\$119.7 million for the year ended 31 December 2016.

On the other hand, the policies enhanced traffic efficiency of the Sui-Yue Expressway and exerted a positive effect on the comprehensive governing of over-loaded vehicles and maintaining the safety of the Sui-Yue Expressway. The average traffic per month increased from about 389,000 vehicles for the year ended 31 December 2015 to about 436,000 vehicles for the year ended 31 December 2016.

The Directors perform a periodic assessment of the total projected traffic volume. In December 2016, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of the Sui-Yue Expressway.

In addition, the rental income from the service area along the Sui-Yue Expressway contributed a significant amount to the turnover of the Group.

EMPLOYEES AND EMOLUMENTS

As at 31 December 2016, the Group employed a total of 272 (2015: 248) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2016, the Group's total expenses on the remuneration of employees were approximately HK\$21.7 million (2015: HK\$23.9 million).

Management Discussion And Analysis

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

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. No options have been granted under the share option scheme as at 31 December 2016.

PROSPECTS

The Sui-Yue Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Sui-Yue Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the new connection to the adjacent expressways in the coming years, the management of the Company are confident of the prospect of the Sui-Yue Expressway.

In addition, the Hang-Rui Expressway Hunan Section “杭瑞高速(湖南段)”, which opened to traffic in late 2016, connected the Sui-Yue Expressway to the whole expressway network of Hunan province and induced new traffic to the Sui-Yue Expressway. Moreover, the Yue-Wang Expressway “岳望高速” which is expected to open to traffic by the end of 2017, is the southern extension of the Expressway and will complete the whole vertical transport corridor in Hunan Province to bring new long-distance traffic on the Sui-Yue Expressway. It is also expected that both of the new adjacent expressways aforesaid will introduce significant positive impact to the Sui-Yue Expressway in the coming few years.

As the Directors are experienced in successfully completing other PRC toll-expressway projects and have the established networking and reputation in the PRC, the Group will continue to tap and pursue opportunities which are consistent with its overall business strategies and will aim to generate a satisfactory return on investment.

In addition, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider acquiring abandoned or partially infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so. Furthermore, the Group will also consider extending its operation to include some other prosperous business, once favourable opportunity appears.

Corporate Governance Report

The Board is committed to maintaining good corporate governance practices and has therefore reviewed the corporate governance policies of the Company with the adoption and improvement of various procedures and documentations which are detailed below.

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. For the year ended 31 December 2016, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

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 by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2016.

BOARD OF DIRECTORS

The overall management of the Group’s business is vested in the Board. Key responsibilities include formulation of the Group’s overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management. The day-to-day management, administration and operation of the Company are delegated to the senior management of the Company. The delegated functions are periodically reviewed. Approvals must be obtained by the Board prior to any significant transactions entered into by senior management.

As at 31 December 2016, the Board comprises three executive directors and three independent non-executive directors. Biographical details of the Directors are set out in the section headed “Directors and Senior Management” of this annual report.

Corporate Governance Report

Brief details of the attendance of the meetings of the Board, Board committees and general meetings of the Company held during the year under review were summarised as follows:

	Board <i>Note</i>	General Meeting <i>Note</i>	Audit Committee <i>Note</i>	Remuneration Committee <i>Note</i>	Nomination Committee <i>Note</i>
<i>Executive Directors</i>					
Chan Yeung Nam	4/4	0/1	N/A	N/A	N/A
Mai Qing Quan	4/4	0/1	N/A	N/A	N/A
Fu Jie Pin	4/4	1/1	N/A	1/1	1/1
<i>Independent non-executive Directors</i>					
Sun Xiao Nian	4/4	0/1	2/2	N/A	1/1
Chu Kin Wang, Peleus	4/4	0/1	2/2	1/1	N/A
Hu Lie Ge	4/4	0/1	2/2	1/1	1/1

Note: Number of meetings attended/Number of meetings held

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent. Pursuant to Rule 3.10 of the Listing Rules, at least one of the independent non-executive directors, Mr. Chu Kin Wang, Peleus, has the appropriate professional qualification or accounting or related financial management expertise.

The Board has developed and reviewed the Company's policies and practices on corporate governance. It includes the review and monitor of the training and continuing professional development of directors and senior management; the Company's policies and practices on compliance with legal and regulatory requirements; the development, review and monitor the code of conduct of the Company's employees and directors; and review the Company's compliance with the code and disclosure in the Corporate Governance Report.

Corporate Governance Report

THE ROLES OF CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The division of responsibilities between the chairman of the Board (“Chairman”) and the chief executive officer of the Company (“Chief Executive Officer”) are clearly defined and have been approved by the Board. The Chairman, Mr. Chan Yeung Nam, leads the Board in the determination of the strategy of the Company and in the achievement of its objectives. He is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group.

The Chief Executive Officer, Mr. Mai Qing Quan, is directly in charge of the daily operations of the Group and is accountable to the Board for the financial and operational performance of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for an initial term of three years, subject to termination in accordance with the provisions of the service contracts or by either party serving the other not less than three months’ prior written notice.

In accordance with the Company’s articles of association (the “Articles”), each year, one third of the Directors for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

TERMS OF APPOINTMENT OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for a term of three years commencing from 23 December 2009, renewable upon expiry. No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS’ AND OFFICERS’ INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all Directors should participate in continuing professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Directors have been informed of the requirement under code provision A.6.5 of the CG Code regarding continuing professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the CG Code on continuing professional development for the year ended 31 December 2016:

	Training activities undertaken
<i>Executive Directors</i>	
Mr. Chan Yeung Nam	A
Mr. Mai Qing Quan	A
Mr. Fu Jie Pin	A
<i>Independent non-executive Directors</i>	
Mr. Sun Xiao Nian	A
Mr. Chu Kin Wang, Peleus	A and B
Mr. Hu Lie Ge	A

Notes:

A: attending briefing sessions and/or seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

BOARD DIVERSITY POLICY

Pursuant to the CG Code relating to board diversity the Board adopted a board diversity policy (the “Board Diversity Policy”) on 28 August 2013. The Board Diversity Policy ensures the nomination committee of the Company (the “Nomination Committee”) nominates and appoints candidates on merit basis, while having appropriate balance of skills and experience necessary to enhance the effectiveness of the Board so to maintain high standards of corporate governance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background, educational background, industry experience and professional experience.

Corporate Governance Report

COMPANY SECRETARY

Mr. Sin Ka Man, the company secretary of the Company (the “Company Secretary”), reports to the Chairman. The details of his biographical is set out in the section headed “Director and Senior Management” of this annual report. Mr. Sin has been informed of the requirement of Rule 3.29 of the Listing Rules and he confirmed that he has taken no less than 15 hours relevant professional training during the financial year.

Company Secretary	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read materials	Attended Seminars/ Briefings	Read materials	Attended Seminars/ Briefings
Mr. Sin Ka Man	✓	✓	✓	✓

BOARD COMMITTEES

As an integral part of good corporate governance practice, the Board established the following Board committees to oversee particular aspects of the Group’s affairs. Each of these Board committees comprises entirely of independent non-executive Directors who have been invited to serve as members. These committees are governed by the respective written terms of reference approved by the Board.

AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”) was established on 21 May 2009 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all of them are independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Sun Xiao Nian. Mr. Chu Kin Wang, Peleus is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practice adopted by the Group.

Corporate Governance Report

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; to discuss with the external auditor regarding the nature and scope of the audit and reporting obligations before the audit commences; to develop and implement policy on engaging an external auditor to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; to monitor integrity of the Company's financial statements, annual report, accounts and half-year report; and to review significant financial reporting judgements contained in them.

During the year ended 31 December 2016, the Audit Committee held two meetings and the Audit Committee reviewed the interim and annual results and the interim and annual reports; met with external auditor to ensure appropriate accounting principles and practices adopted by the Group; assisted the Board in meeting its responsibilities for maintaining an effective system of internal control; and reviewed the internal audit plan and the report from the internal audit to ensure the effectiveness of the internal audit function of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established on 21 May 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Remuneration Committee comprises three members, namely Mr. Hu Lie Ge, Mr. Chu Kin Wang, Peleus and Mr. Fu Jie Pin. Mr. Hu Lie Ge, an independent non-executive Director, is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors' and members of the senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to make recommendations to the Board on the remuneration packages of individual executive Directors and members of the senior management including benefits in kind, pension rights and compensation payments, to make recommendations to the Board on the remuneration of non-executive Directors; taking into account the salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; to review and approve compensation payable to executive Directors and members of the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and to ensure that no Director or any of his associates is involved in deciding his own remuneration. The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 10% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee. The Remuneration Committee, with delegated responsibility from the Board, has held one meeting to review and approve the remuneration packages of the Directors and the members of the senior management of the Group for the year ended 31 December 2016.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee was established on 21 May 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Nomination Committee comprises three members, namely Mr. Sun Xiao Nian, Mr. Hu Lie Ge and Mr. Fu Jie Pin. Mr. Sun Xiao Nian, an independent non-executive Director, is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate's strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer. The Nomination Committee is also responsible for reviewing the Board Diversity Policy annually, to ensure the continued effectiveness of the Board. It will also give consideration to the Board Diversity Policy when identifying suitable qualified candidates to become members of the Board.

The Group considered the diversity of Board can be achieved through the consideration of a number of aspects during the selection process of potential Directors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge (collectively, the "Aspects"). All appointment of Directors will be based on meritocracy, and the suitability candidates will be evaluated against objective criteria, having due regard for the benefits of Board diversity. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the Aspects. The ultimate decision will be made after assessing the merits and contributions that the candidates will potentially bring to the Board.

The Nomination Committee has held one meeting for the year ended 31 December 2016 to nominate the members of Board for retirement and re-election at the forthcoming annual general meeting, to review, the structure, size and composition of the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of persons
Nil to HK\$1,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditors' report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditors.

AUDITORS' REMUNERATION

For the year ended 31 December 2016, the remuneration paid or payable to the Group's auditors, KPMG, in respect of the services provided are as follows:

	HK\$'000
Audit and review services	2,429
Other services – Review of the internal control system of the Group	427
Total	2,856

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibilities to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of the shareholders of the Company (the "Shareholders"). The Board has developed its systems of internal control and risk management and is also responsible for overseeing, reviewing and maintaining an adequate risk management and internal control systems to safeguard the interests of the Shareholders and the assets of the Group.

During the year, the Board has conducted reviews of the risk management and internal control systems of the Group and considered the internal control system of the Group has implemented effectively and adequately. During the year ended 31 December 2016, the Board oversaw and reviewed the effectiveness and adequacy of the Group's internal control system, covering all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

INTERNAL AUDIT

The Group has an Internal Audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the IA plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via the Audit Committee afterwards.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and the investors of the Company. The Board also recognises effective communication with investors is the key to establish investors' confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate correspondence on the Company's website www.huayu.com.hk. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various Board committees would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

VOTING BY POLL

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting, and questions from the Shareholders regarding the voting procedures are answered. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to article 57 of the Articles, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. The Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Any Shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than 7 days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph "Procedures for directing shareholders' enquiries to the Board" below.

Corporate Governance Report

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Huayu Expressway Group Limited
Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Email: kenneth.sin@huayu.com.hk
Tel No.: +852 2559 1210
Fax No.: +852 2559 1026

The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to such enquires.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2016, the Group confirmed that there has been no change to the memorandum of association of the Company and the Articles.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam (陳陽南), aged 61, is an executive Director and the Chairman of the Board. Mr. Chan is the founder of the Group and was appointed as executive Directors in April 2009. He is responsible for the overall management, development and planning of the Group. He is also responsible for assessing and analyzing investment opportunities involving other infrastructure projects when they arise. Mr. Chan graduated from Sun Yat-Sen University. He has more than 19 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan (麥慶泉), aged 67, is an executive Director and the Chief Executive Officer. He joined the Group in May 2009. Mr. Mai is responsible for the negotiation and communication with the relevant governmental bodies in the PRC. He is also responsible for overseeing the infrastructure projects of the Group. Mr. Mai graduated from Hunan Normal College. He has over 11 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Fu Jie Pin (符捷頻), aged 49, joined the Company as an executive Director in May 2009. Mr. Fu is responsible for project investment analysis, commercial negotiation and coordination and investment capital operation. Mr. Fu graduated from Sun Yat-Sen University with a bachelor's degree in electronics and information system in 1989. He has over 18 years of experience in development, operation and management of highways in the PRC.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian (孫小年), aged 52, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in automobiles and transport from 吉林工業大學 (Jilin University of Technology)*, currently part of the Jilin University. He then further obtained his doctor degree in transportation planning and management from Tongji University. He is a senior engineer of professor's level accredited by the 廣東省人事廳 (Guangdong Province Personnel Bureau)* in 2003 and a registered consultant engineer accredited by the Ministry of Personnel of the PRC. He is now the vice chief engineer and the head of technical consultation centre of the China Academy of Transportation Sciences.

Mr. Chu Kin Wang, Peleus (朱健宏) aged 52, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in business administration from the University of Hong Kong. Mr. Chu is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountant, a fellow member of the Association Chartered Certified Accountants and an associate of Hong Kong Institute of Company Secretary and The Institute of Chartered Secretaries and Administrators. Mr. Chu is a director of Chinese People Holdings Company Limited, Tianli Holdings Group Limited (formerly named as EYANG Holdings (Group) Co., Limited, ITC Corporation Limited, Mingfa Group (International) Company Limited, China First Capital Group Limited and Flyke International Holdings Ltd., all of which are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of Madison Wine Holdings Limited, Telecom Service One Holdings Limited and SkyNet Group Limited, all of which are companies listed on the Growth Enterprise Market of Stock Exchange.

Mr. Hu Lie Ge (胡列格) aged 63, joined the Company as an independent non-executive Director in May 2009. He graduated from 長沙交通學院 (Changsha Communications Institute)* in Mathematical Mechanics and completed a graduate course in Probability Theory and Mathematics Statistics at 長沙鐵道學院 (Changsha Railway University)*, currently part of Central South University. Mr. Hu was once the Head of the 交通運輸學院 (College of Transportation and Communications)* in Changsha University of Science and Technology and is now a member of 湖南省促進物流業發展專家委員會 (Hunan Province Committee for Facilitation of the Development of the Logistics Industry)*.

COMPANY SECRETARY

Mr. Sin Ka Man (冼家敏) aged 49, was appointed as the Company Secretary on 3 July 2009. Mr. Sin has over 24 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

* *The English translation is for reference only. The official name of the university, college, institution or organisation is in Chinese.*

Report of the Directors

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

BUSINESS REVIEW

GENERAL

For the review of the business of the Group, please refer to the section headed “Management Discussion and Analysis” on pages 5 to 9 of this report. This discussion forms part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Further, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Changes to the provincial government’s transportation-related policies

The Group’s operations are sensitive to changes in the PRC Government’s policies relating to all aspects of the transportation sector, for example, changes to transportation networks, traffic regulation, licensing and toll regime, etc. Such changes may have an adverse effect on the revenue or results of operations of the Group. The Directors will monitor the applicable and relevant government policies closely and will take immediate and appropriate actions in response to any changes in the policies with a view to minimize its impact on the infrastructure projects and to the Group.

Revenue is heavily dependent on traffic volume and may be affected by competing roads and bridges and other modes of transportation

Revenue to be generated from collection of toll is heavily dependent on traffic volume. Traffic volume is directly and indirectly affected by a number of factors, including the road’s connectivity with other parts of the local and national highway network. There can be no assurance that future changes in the highway system and network will not adversely affect the traffic volume on the expressways. There is also no assurance that other road or mode of transportation will not be constructed or introduced in future which may prove to be better alternatives to the Group’s existing expressway projects. In such case, the Group’s business and operating results may be materially and adversely affected.

Notwithstanding the above, the Directors believe that the rising trend of the economic growth in PRC will be sustained in the foreseeable future. With this growth, especially in Hunan area, the Directors expect the revenue for toll road project to continue to increase in the coming years.

Report of the Directors

Business operations may be adversely affected by net current liability position

At 31 December 2016, the Group's net current liabilities were HK\$113,395,000. The Group is dependent upon the financial support from banks and the controlling shareholder of the Company, and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments. These conditions continue to indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least for the next twelve months and to meet its obligations, as and when they fall due. But we cannot assure you that we will be able to maintain our net current assets position in the future and our business operations may be adversely affected by if we are in net current liability position.

Significant borrowings and financial performance could be affected by general economic conditions and factors

The Group has significant debt obligations under bank loans borrowed to finance project costs. As at 31 December 2016, the Group had total borrowing of approximately HK\$1,137.7 million and our gearing ratio (total debt to equity ratio) is 16,727.2%.

All existing borrowings are outstanding on variable interest rate terms under which interest rates will be adjusted according to market movements in interest rates. It has not been the Group's policy to hedge against movements in interest rates. Any significant increase in interest rates could have a significant adverse effect on our Group's earnings. The Group's interest rate risk mainly relates to the cash at bank and the long term bank loan. A change in interest rates at the balance sheet date would have effect on the amount of the interest costs and income.

Past performance and forward looking statements

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

FINANCIAL RESOURCES

As at 31 December 2016, the total outstanding secured bank loan was HK\$1,137.7 million. The details of the maturity profile can be referred to the section headed "Management Discussion and Analysis – Liquidity and financial resources" on page 7 of this report.

In addition, the Directors have been actively negotiating with a commercial bank in the PRC for raising funds from new banking facilities. This new facilities will further strengthen the financial resources of the Group.

Report of the Directors

POST YEAR END EVENTS

Except as disclosed in this annual report, since 31 December 2016, being the end of the financial year under review, no important event has occurred affecting the Group.

ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

For details of the key financial performance indicators to the performance the Group's business, please refer to "Management Discussion and Analysis" on pages from 5 to 9 of this report. This discussion forms part of this Report of the Directors.

ENVIRONMENT PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

During the year ended 31 December 2016 and to the best of our Directors' knowledge, the Group had obtained the required permits and environmental approvals for its business, and had complied with such laws, rules and regulations that have a significant impact on the Group, its business and operations.

Please refer to the Environmental, Social and Governance Report issued separately for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to keep abreast with the requirement of the relevant laws and regulations of various countries, particularly the PRC and Hong Kong, applicable to it to ensure compliance. Majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. During the year under review, the Group complied in all material respects with the relevant laws and regulations in various countries applicable to it.

ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered that it has maintained a good relationship with its employees and the employee turnover rate was acceptable.

Building contractors

The Group's building contractors mainly include the contractors for the building and construction of the Sui-Yue Expressway. All these contractor have a close and long term relationship with the Group. During the year under review, the Group considered that it has maintained a good and stable relationship with its building contractors.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 12 to the consolidated financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the Group have no major customer information to disclose as the Expressway is open to public. No further disclosure with regard to the Group's suppliers are made since there is normally no major purchase in its ordinary course of business.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 39 to 88.

Report of the Directors

RESERVES

Details of movements in the reserve of the Company during the year ended 31 December 2016 are set out in note 19 to the consolidated financial statements.

Loss attributable to Shareholders HK\$10,477,000 (2015: HK\$18,707,000) have been transferred to reserves. Other movements in reserve are set out in consolidated statement of changes in equity.

No dividend was declared nor paid for the year ended 31 December 2016 (2015: HK\$Nil).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2016 (2015: HK\$Nil).

FIXED ASSETS

Details of the movements in fixed assets during the year ended 31 December 2016 are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2016 are set out in note 19 to the consolidated financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries since the listing date until 31 December 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DIRECTORS

The directors during the financial year and up to the date of this annual report were:

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam
Mr. Mai Qing Quan
Mr. Fu Jie Pin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian
Mr. Chu Kin Wang, Peleus
Mr. Hu Lie Ge

In accordance with article 83 of the Articles, any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following general meeting of the Company.

By virtue of articles 84 and 85 of the Articles, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Each of the executive and independent non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 23 December 2009 and thereafter may be terminated by either party upon a three months' prior written notice.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors

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

As at 31 December 2016, 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 contained in the Listing Rules were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam (<i>Note</i>)	Interest in controlled corporation	300,000,000(L)	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.

On 16 June 2015, Velocity International Limited had pledged 300,000,000 shares of the Company to Integrated Capital (Asia) Limited as security for a term loan facility (please refer to the announcement of the Company dated 17 June 2015 for details of the pledge). Such pledge was released on 25 August 2016 after the relevant loan was repaid in full.

Apart from the forgoing, as at 31 December 2016, 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).

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme on 30 November 2009 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

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

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

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

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

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

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

Apart from the forgoing, at no time during the year 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.

Report of the Directors

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

As at 31 December 2016, so far as it is known to any director 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:

Name of Shareholders	Capacity/Nature of Interest	Long position in ordinary shares held	Percentage of total issued shares
Velocity International Limited (Note 1)	Beneficial owner	300,000,000(L)	72.71%

Notes:

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

On 16 June 2015, Velocity International Limited had pledged 300,000,000 shares of the Company to Integrated Capital (Asia) Limited as security for a term loan facility (please refer to the announcement of the Company dated 17 June 2015 for details of the pledge). Such pledge was released on 25 August 2016 after the relevant loan was repaid in full.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issue shares as required under the Listing Rules for the year ended 31 December 2016.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which the Director or an entity connected with such Director had a material interest, directly or indirectly, subsisted at the end of the year or at any time during the year.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 17 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of the annual report.

RETIREMENT SCHEMES

The Group 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 scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People’s Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group’s total contributions to retirement schemes charged to the income statement during the year ended 31 December 2016 amounted to HK\$3,278,000 (2015: HK\$3,141,000).

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

CORPORATE GOVERNANCE CODE

The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2016, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

Report of the Directors

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditor the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2016.

AUDITORS

KPMG will retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the board

Chan Yeung Nam

Chairman

Hong Kong, 30 March 2017



Independent auditor's report to the shareholders of Huayu Expressway Group Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huayu Expressway Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 39 to 88, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that the Group incurred a net loss of \$10,211,000 during the year ended 31 December 2016, and the Group had net current liabilities of \$113,395,000 and accumulated losses of \$673,356,000 as of 31 December 2016. As explained in note 1(b) to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the controlling shareholder, and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Potential impairment of the intangible asset – service concession arrangement

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 49 to 51.

The Key Audit Matter

The service concession arrangement represents the Group's rights to operate the Expressway and receive toll fees therefrom. The Group's operations are sensitive to changes in government policies relating to all aspects of the transportation sector, including policies relating to provincial and municipal transportation networks and traffic regulations.

Due to the impact of traffic regulations in Hunan Province relating to motor vehicles (including measures to raise the toll rate for the overloaded portion of trucks and the imposition of higher penalties for traffic violations), toll revenue from overloaded trucks has decreased. In addition, as a result of the imposition of these traffic regulations, the Group's future rental income from service areas is expected to decrease.

The intangible asset – service concession arrangement was considered to be impaired as at 31 December 2015 and any changes in the assumptions adopted to assess the recoverable amount of the asset (including the factors referred to above) could lead to further impairment charges in the current or future years.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of the intangible asset – service concession arrangement included the following:

- meeting the external traffic consultant and the external valuer engaged by management to assist in valuing the recoverable amount of the CGU and assessing their capabilities, experience, competence and independence;
- evaluating the forecast cash flows for the CGU which included comparing details in the forecast with the latest management plans and budgets approved by the directors;
- comparing the cash flows for the year ended 31 December 2016 previously projected by management in 2015 with the actual results for the current year;
- critically assessing the key assumptions adopted in the discounted cash flow forecast (including the toll revenue growth rate over the concession period, future contingent rental income from service areas within the Expressway and the discount rate) as follows:

KEY AUDIT MATTERS (continued)

Potential impairment of the intangible asset – service concession arrangement (continued)

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 49 to 51.

The Key Audit Matter

Management considered that indicators of impairment of the intangible asset – service concession arrangement still existed as at 31 December 2016 and conducted an impairment assessment thereof by engaging an external valuer to prepare a discounted cash flow forecast, which involved the exercise of significant judgement and estimation, particularly in relation to the forecast of revenue and the discount rate applied to estimate the net present value of the future operating cash flows.

Management engaged an external traffic consultant to update projected traffic and revenue data for the Expressway for the remainder of the concession. Based on the updated projected traffic and revenue data, management engaged an external valuer to perform the impairment assessment of the cash generating unit (the "CGU") containing the Expressway and concluded that no further impairment was required as at 31 December 2016.

We identified the potential impairment of the intangible asset – service concession arrangement as a key audit matter because of the inherent uncertainty involved in forecasting future revenue from the Expressway and determining the applicable discount rate, which could be subject to potential management bias.

How the matter was addressed in our audit

- assessing the toll revenue growth rate over the concession period with reference to external data and forecasts together with traffic flow and toll revenue forecast reports prepared by the Group's external traffic consultant;
 - evaluating future contingent rental income from service areas within the Expressway based on market and other externally available information; and
 - engaging our internal valuation specialists to assist us in evaluating the discount rate adopted by comparison with those of similar companies in the same industry.
- assessing the sensitivity of key assumptions, including the toll revenue growth rate and the discount rate, in the discounted cash flow forecast to changes and considering whether there was any evidence of potential management bias;
 - considering the disclosures in the consolidated financial statements in respect of management's impairment assessment of the intangible asset – service concession arrangement and whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in the key assumptions reflected the risks inherent in the impairment assessment with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maggie L.T. Lee.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

30 March 2017

Consolidated statement of profit or loss

for the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	3	138,972	180,624
Cost of sales		(49,220)	(74,156)
Gross profit		89,752	106,468
Other revenue	4	387	568
Other net loss	4	(445)	(37,550)
Administrative expenses		(27,063)	(24,120)
Impairment loss of intangible asset-service concession arrangement	11	–	(157,988)
Profit/(loss) from operations		62,631	(112,622)
Finance costs	5(a)	(64,491)	(84,801)
Loss before taxation	5	(1,860)	(197,423)
Income tax	6(a)	(8,351)	(2,085)
Loss for the year		(10,211)	(199,508)
Attributable to:			
Equity shareholders of the Company		(10,477)	(180,707)
Non-controlling interests		266	(18,801)
Loss for the year		(10,211)	(199,508)
Loss per share (HK cents)			
Basic and diluted	9	(2.54)	(43.80)

The notes on pages 45 to 88 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Loss for the year	(10,211)	(199,508)
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	(5,935)	(16,042)
Total comprehensive income for the year	(16,146)	(215,550)
Attributable to:		
Equity shareholders of the Company	(15,831)	(195,157)
Non-controlling interests	(315)	(20,393)
Total comprehensive income for the year	(16,146)	(215,550)

The notes on pages 45 to 88 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Property, plant and equipment	10	14,068	15,393
Intangible asset – service concession arrangement	11	1,269,848	1,366,208
Deferred tax assets	18	122,319	139,131
		1,406,235	1,520,732
Current assets			
Prepayments and other receivables	13	6,039	4,533
Pledged bank deposits	14	–	14,395
Cash at bank and on hand	15(a)	10,806	9,120
		16,845	28,048
Current liabilities			
Accruals and other payables	16	61,119	120,007
Amount due to a related company	23(c)	–	14,329
Bank loans	17	69,121	629,278
		130,240	763,614
Net current liabilities		(113,395)	(735,566)
Total assets less current liabilities		1,292,840	785,166
Non-current liabilities			
Bank loans	17	1,068,618	661,474
Amount due to the controlling shareholder of the Company	23(c)	109,028	99,089
Amount due to a related company	23(c)	106,737	–
		1,284,383	760,563
NET ASSETS		8,457	24,603

Consolidated statement of financial position

at 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
CAPITAL AND RESERVES	19		
Share capital		4,126	4,126
Reserves		(4,328)	11,503
Total equity attributable to equity shareholders of the Company		(202)	15,629
Non-controlling interests		8,659	8,974
TOTAL EQUITY		8,457	24,603

Approved and authorised for issue by the board of directors on 30 March 2017.

Chan Yeung Nam
Chairman

Mai Qing Quan
Chief Executive Officer and Executive Director

The notes on pages 45 to 88 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Attributable to equity shareholders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000 (Note 19(c))	Share premium HK\$'000 (Note 19(d)(i))	Other reserve HK\$'000 (Note 19(d)(ii))	Exchange reserve HK\$'000 (Note 19(d)(iii))	Accumulated losses HK\$'000	Sub-total HK\$'000			
Balance at 1 January 2016	4,126	130,044	502,784	41,554	(662,879)	15,629	8,974	24,603	
Changes in equity for 2016:									
Loss for the year	-	-	-	-	(10,477)	(10,477)	266	(10,211)	
Other comprehensive income									
- Exchange differences	-	-	-	(5,354)	-	(5,354)	(581)	(5,935)	
Total comprehensive income for the year	-	-	-	(5,354)	(10,477)	(15,831)	(315)	(16,146)	
Balance at 31 December 2016	4,126	130,044	502,784	36,200	(673,356)	(202)	8,659	8,457	
Balance at 1 January 2015	4,126	130,044	502,784	56,004	(482,172)	210,786	29,367	240,153	
Changes in equity for 2015:									
Loss for the year	-	-	-	-	(180,707)	(180,707)	(18,801)	(199,508)	
Other comprehensive income									
- Exchange differences	-	-	-	(14,450)	-	(14,450)	(1,592)	(16,042)	
Total comprehensive income for the year	-	-	-	(14,450)	(180,707)	(195,157)	(20,393)	(215,550)	
Balance at 31 December 2015	4,126	130,044	502,784	41,554	(662,879)	15,629	8,974	24,603	

The notes on pages 45 to 88 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Net cash generated from operating activities	15(b)	75,953	134,452
Investing activities			
Payment for the purchase of property, plant and equipment		(5,137)	(790)
Payment for intangible asset		(42,028)	(28,488)
Proceeds from disposal of fixed assets		–	101
Interest received		22	37
Net cash used in investing activities		(47,143)	(29,140)
Financing activities			
Decrease/(increase) in pledged bank deposits		14,377	(14,395)
Repayment of bank loans		(661,289)	(20,793)
Increase in amount due to the controlling shareholder of the Company		9,939	11,510
Increase in amount due to a related company		97,411	–
Borrowing costs paid		(76,889)	(88,278)
Proceeds of bank borrowings		589,780	–
Net cash used in financing activities		(26,671)	(111,956)
Net increase/(decrease) in cash and cash equivalents		2,139	(6,644)
Cash and cash equivalents at 1 January		9,120	14,129
Effect of foreign exchange rate changes		(453)	1,635
Cash and cash equivalents at 31 December	15(a)	10,806	9,120

The notes on pages 45 to 88 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

During the year ended 31 December 2016, the Group incurred a net loss of \$10,211,000 (2015: \$199,508,000). As of 31 December 2016, the Group had net current liabilities of \$113,395,000 (2015: \$735,566,000) and accumulated losses of \$673,356,000 (2015: \$662,879,000). The Group is dependent upon the financial support from the bankers and the controlling shareholder, and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments. These conditions indicate the existence of a material uncertainty that may cast significant doubt on 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 from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

- (i) the Group expects to continue to generate positive operating cash flows for the next twelve months;
- (ii) the controlling shareholder of the Company has undertaken that repayment of advances of \$109,028,000 at 31 December 2016 and advance from a related party of \$106,737,000 at 31 December 2016 will not be requested until after 31 December 2018, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time;
- (iii) the directors have been actively negotiating with a commercial bank in the People's Republic of China ("PRC") for raising funds from new banking facilities, which have not yet been determined; and
- (iv) the controlling shareholder confirms its intention to provide adequate financial support to the Group as is necessary to ensure the Group's continuing operation for a period of at least 12 months from the end of the reporting period. In this regard, the controlling shareholder has advanced RMB80,000,000 to the Group in March 2017. The controlling shareholder has undertaken that repayment of this advance will not be requested until the Group has obtained funding from other sources and is in a position to meet all repayment obligations.

Consequently, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments that would result should the Group be unable to operate as a going concern.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(j) or (k) depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Toll station and ancillary equipment	5 – 10 years
– Other machinery and equipment	5 years
– Motor vehicles	5 years
– Furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(F) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group has entered into contractual service arrangement with local government authorities for its participation in the construction, operation and management of an expressway in the PRC. The Group carries out the construction of an expressway for the granting authorities and receives in exchange for the right to operate the expressway concerned and the entitlement to toll fees collected from users of the concession infrastructure.

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible assets received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and impairment losses (see note 1(h)).

Land collection costs incurred in conjunction with the service concession arrangement are recognised as intangible asset acquired under the service concession arrangement.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of the intangible asset arising from a service concession arrangement 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. Where an item of infrastructure assets included in the intangible asset arising from a service concession arrangement has different period of expected future economic benefits flowing to the Group than the concession period, it is amortised separately.

Both the period and method of amortisation are reviewed annually.

(G) OPERATING LEASE CHARGES

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(H) IMPAIRMENT OF ASSETS

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) IMPAIRMENT OF ASSETS (continued)

(i) Impairment of receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible asset – service concession arrangement; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(I) RECEIVABLES

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(J) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(K) PAYABLES

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(M) EMPLOYEE BENEFITS

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) INCOME TAX (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if (the Company or) the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(O) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Toll revenue

Toll revenue from operation of toll road is recognised on a receipt basis, net of tax and surcharges.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(Q) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(R) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(S) RELATED PARTIES

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) RELATED PARTIES (continued)

(b) (continued)

- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(T) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, the construction, operation and management of an expressway in the People's Republic of China (the "PRC"). Accordingly, no segmental analysis is presented.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(A) AMORTISATION OF INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group applied HK (IFRIC) Interpretation 12 and recognised intangible asset – service concession arrangement and provides amortisation thereon.

Amortisation of intangible asset – service concession arrangement is provided on unit of usage over the concession period. Material adjustments may need to be made to the carrying amounts of intangible assets – service concession arrangement should there be a material difference between total projected traffic volume and the actual results.

The directors perform a periodic assessment of the total projected traffic volume and prospectively adjust the amortisation unit according to revised projected traffic volume. In December 2016, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of Sui-Yue Expressway (Hunan Section). The Group has adjusted the amortisation unit for the related concession intangible assets according to the revised total projected traffic volume since 1 January 2016 on a prospective basis. Due to such change in accounting estimate, the amortisation charges to current and future cost of sales has changed as below:

	2016	2017	2018	2019 and the year after 2019
	\$'000	\$'000	\$'000	\$'000
(Decrease)/increase of amortisation	(20,513)	(7,476)	(4,824)	32,813

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(B) IMPAIRMENT

If circumstances indicate that the carrying amount of property, plant and equipment and intangible assets may not be recoverable, these assets may be considered “impaired” and an impairment loss may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of future toll revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of toll revenue and the amount of operating costs, and discount rate.

3 REVENUE

The principal activities of the Group are construction, operation and management of Sui-Yue Expressway (Hunan Section) (the “Expressway”) in the PRC.

Revenue during the year 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 revenue during the year is as follows:

	2016 HK\$'000	2015 HK\$'000
Toll income	119,665	139,516
Rental income	19,307	41,108
	138,972	180,624

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET LOSS

	2016 \$'000	2015 \$'000
Other revenue		
Billboard rental income	365	532
Interest income from bank deposits	22	36
	387	568
Other net loss		
Exchange loss	(1,690)	(38,625)
Others	1,245	1,075
	(445)	(37,550)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(A) FINANCE COSTS:

	2016 \$'000	2015 \$'000
Interest on bank loans	64,491	84,801

There is no borrowing costs capitalised for the year ended 31 December 2016 (2015: nil).

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION (continued)

(B) STAFF COSTS:

	2016 \$'000	2015 \$'000
Salaries, wages and other benefits	18,390	20,760
Contributions to defined contribution retirement plans	3,278	3,141
	21,668	23,901

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. 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.

(C) OTHER ITEMS:

	2016 \$'000	2015 \$'000
Auditors’ remuneration		
– Audit and review services	2,429	2,160
Depreciation (note 10)	5,501	5,390
Amortisation (note 11)	24,774	48,376
Impairment loss of intangible asset		
– service concession arrangement (note 11)	–	157,988
Operating lease charges in respect of rental of office premises	1,521	107

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(A) TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS REPRESENTS:

	2016 \$'000	2015 \$'000
Deferred tax		
Reversal and origination of temporary differences (note 18)	8,351	2,085

- (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 years ended 31 December 2016 and 2015.
- (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% (2015: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset – service concession arrangement.

(B) RECONCILIATION BETWEEN INCOME TAX AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

	2016 \$'000	2015 \$'000
Loss before taxation	(1,860)	(197,423)
Notional tax on loss before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	1,965	(47,180)
Tax effect on tax losses not recognised	5,678	9,737
Tax effect on deductible temporary differences not recognised	681	39,497
Tax effect of non-deductible expenses	27	31
Income tax	8,351	2,085

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

The details of directors' emoluments are disclosed as follows:

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000	Discretionary bonuses \$'000	2016 Total \$'000
<i>Executive directors</i>					
Chan Yeung Nam	1,117	–	–	–	1,117
Mai Qing Quan	837	834	–	80	1,751
Fu Jie Pin	558	–	–	–	558
<i>Independent non-executive directors</i>					
Sun Xiao Nian	58	–	–	–	58
Chu Kin Wang, Peleus	140	–	–	–	140
Hu Lie Ge	58	–	–	–	58
Total	2,768	834	–	80	3,682

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000	Discretionary bonuses \$'000	2015 Total \$'000
<i>Executive directors</i>					
Chan Yeung Nam	1,178	164	–	–	1,342
Mai Qing Quan	884	884	–	71	1,839
Fu Jie Pin	589	–	–	–	589
<i>Independent non-executive directors</i>					
Sun Xiao Nian	61	–	–	–	61
Chu Kin Wang, Peleus	147	–	–	–	147
Hu Lie Ge	61	–	–	–	61
Total	2,920	1,048	–	71	4,039

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: three) are directors whose emoluments are disclosed in note 7 above.

The aggregate of the emoluments in respect of the remaining two (2015: two) individual is as follows:

	2016 \$'000	2015 \$'000
Salaries and other emoluments	1,860	1,860
Discretionary bonuses	80	80
Retirement scheme contributions	36	36
	1,976	1,976

The emolument of the two (2015: two) individual with the highest emolument is within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil – \$1,000,000	1	1
\$1,000,001 – \$1,500,000	1	1

9 LOSS PER SHARE

(A) LOSS PER SHARE

	2016 '000	2015 '000
Issued ordinary shares at 1 January	412,608	412,608
Weighted average number of ordinary shares at 31 December	412,608	412,608

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of \$10,477,000 (2015: \$180,707,000) and the weighted average number of 412,608,000 (2015: 412,608,000) shares in issue during the year.

(B) DILUTED LOSS PER SHARE

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted loss per share is equivalent to basic loss per share.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Toll station and ancillary equipment \$'000	Other machinery and equipment \$'000	Motor vehicles \$'000	Furniture and fixtures \$'000	Total \$'000
<i>Cost:</i>					
At 1 January 2015	26,799	1,756	4,105	4,184	36,844
Additions	2,583	–	149	–	2,732
Disposals	–	–	(606)	–	(606)
Exchange adjustments	(1,670)	(102)	(221)	(242)	(2,235)
At 31 December 2015	27,712	1,654	3,427	3,942	36,735
At 1 January 2016	27,712	1,654	3,427	3,942	36,735
Additions	4,804	–	110	–	4,914
Disposals	–	–	–	–	–
Exchange adjustments	(1,757)	(105)	(217)	(248)	(2,327)
At 31 December 2016	30,759	1,549	3,320	3,694	39,322
<i>Accumulated depreciation:</i>					
At 1 January 2015	11,699	846	2,806	2,376	17,727
Charge for the year	4,061	310	343	676	5,390
Written back on disposals	–	–	(545)	–	(545)
Exchange adjustments	(848)	(62)	(156)	(164)	(1,230)
At 31 December 2015	14,912	1,094	2,448	2,888	21,342
At 1 January 2016	14,912	1,094	2,448	2,888	21,342
Charge for the year	4,251	291	333	626	5,501
Written back on disposals	–	–	–	–	–
Exchange adjustments	(1,130)	(82)	(170)	(207)	(1,589)
At 31 December 2016	18,033	1,303	2,611	3,307	25,254
<i>Net book value:</i>					
At 31 December 2016	12,726	246	709	387	14,068
At 31 December 2015	12,800	560	979	1,054	15,393

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	2016 \$'000	2015 \$'000
<i>Cost:</i>		
At 1 January	2,234,444	2,352,552
Additions	14,619	20,045
Exchange adjustments	(142,347)	(138,153)
At 31 December	2,106,716	2,234,444
<i>Accumulated amortisation:</i>		
At 1 January	150,114	110,135
Charge for the year	24,774	48,376
Exchange adjustments	(10,598)	(8,397)
At 31 December	164,290	150,114
<i>Impairment loss:</i>		
At 1 January	718,122	594,860
Charge for the year	–	157,988
Exchange adjustment	(45,544)	(34,726)
At 31 December	672,578	718,122
<i>Net book value:</i>		
At 31 December	1,269,848	1,366,208

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

In accordance with the accounting policy set out in note 1(f), the amortisation of intangible asset-service concession arrangement is recognised in profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

(continued)

IMPAIRMENT LOSS

The impairment previously recognised were determined by the estimation of recoverable amount compared to its carrying value as at 31 December 2012 and 31 December 2015. Management has updated the valuation as at 31 December 2016, taking into account the changing of market factors and actual operating result of the expressway. No further impairment is recognised in 2016.

The recoverable amount of the CGU was determined by the value in use, based on the expected free cash flow up to the end of the service concession arrangement period, and a post-tax discount rate of 15.1% (equivalent to a pre-tax discount rate of 17.9%) (2015: a post-tax discount rate of 14.1% (equivalent to a pre-tax discount rate of 16.3%)).

The impairment loss was fully allocated to the intangible asset – service concession arrangement.

Key assumptions used for the value in use calculation are as follows:

	2016	2015
Period of operation	22 years	23 years
Average annual toll revenue growth rate over the concession period	6.3%	5.0%
Discount rate	15.1%	14.1%

DISCOUNT RATE

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

AVERAGE ANNUAL TOLL REVENUE GROWTH RATE OVER THE CONCESSION PERIOD

The toll revenue growth rates were projected by the directors based on traffic survey, historic traffic data, historic economic indices and expected toll network development at nearby areas.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

(continued)

SENSITIVITY TO CHANGES IN ASSUMPTIONS

As the intangible asset has been reduced to its recoverable amount, any adverse movement in a key assumption would lead to a further impairment. A sensitivity analysis on the discount rate and toll revenue has been performed by the Directors as follows.

At 31 December 2016, it is estimated that an increase/decrease of 1% in discount rate, with all other variables held constant, would have decreased/increased the value in use of the intangible asset by approximately \$21,020,000/\$24,336,000.

At 31 December 2016, it is estimated that an increase/decrease of 5% in toll revenue, with all other variables held constant, would have increased/decreased the value in use of the intangible asset by approximately \$44,558,000/\$45,010,000.

12 INTERESTS IN SUBSIDIARIES

	2016 \$'000	2015 \$'000
Unlisted shares, at cost	513,388	513,388
Add: advance to subsidiaries	101,105	107,897
Less: impairment loss	(532,884)	(532,884)
	81,609	88,401

The impairment loss was caused by the impairment provision of intangible asset of one of its subsidiaries, Hunan Daoyue Expressway Industry Co., Ltd..

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTERESTS IN SUBSIDIARIES (continued)

Details of the subsidiaries at 31 December 2016 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Issued and fully paid/registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Top Talent Holdings Limited ("Top Talent")	BVI 18 March 2003	US\$1/US\$50,000	100%	–	Investment holding
Good Sign Limited ("Good Sign")	Hong Kong 19 December 2008	HK\$1/HK\$10,000	–	100%	Investment holding
Bright Regent Limited ("Bright Regent")	Hong Kong 10 October 2003	HK\$1/HK\$1	–	100%	Provision of administration services to the Group
湖南道岳高速公路實業有限公司 Hunan Daoyue Expressway Industry Co., Ltd. ("Daoyue") *	The PRC 22 December 2006	RMB600,950,000/ RMB600,950,000	–	90%	Construction, operation and management of an expressway in the PRC
深圳華昱凱天貿易發展有限公司 Shenzhen Huayu Kaitian Trade Development Co., Ltd.*	The PRC 25 January 2013	HK\$2,000,000/ HK\$2,000,000	–	100%	Import and export of construction materials and its related ancillary service

* These entities are foreign investment enterprises established in the PRC. The English translation of the Companies' names are for references only. The official names are in Chinese.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTERESTS IN SUBSIDIARIES (continued)

The following table lists out the information relating to Hunan Daoyue Expressway Industry Co., Ltd., the only subsidiary of the Group which has material non-controlling interest (“NCI”). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016	2015
	\$'000	\$'000
NCI percentage	10%	10%
Current assets	11,059	21,048
Non-current assets	1,406,234	1,520,733
Current liabilities	(155,349)	(790,572)
Non-current liabilities	(1,175,355)	(661,474)
Net assets	86,589	89,735
Carrying amount of NCI	8,659	8,974
Revenue	138,972	180,624
Profit/(loss) for the year	2,662	(188,010)
Total comprehensive income	(3,145)	(203,933)
Profit/(loss) allocated to NCI	266	(18,801)
Cash flows from operating activities	87,159	141,518
Cash flows from investing activities	(47,143)	(29,155)
Cash flows from financing activities	(36,582)	(123,473)

13 PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	\$'000	\$'000
Prepayments	770	2,538
Other receivables	5,269	1,995
	6,039	4,533

All of the prepayments and other receivables are expected to be recovered within one year.

14 PLEDGED BANK DEPOSITS

Pledged bank deposits had been pledged as security for certain bank loans (note 17). The pledged bank deposits had been released in 2016.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AT BANK AND ON HAND

(A) CASH AT BANK AND ON HAND COMPRISE:

	2016 \$'000	2015 \$'000
Cash and cash equivalents		
– Cash at bank and on hand	10,806	9,120

(B) RECONCILIATION OF LOSS BEFORE TAXATION TO CASH GENERATED FROM OPERATING ACTIVITIES:

	Note	2016 \$'000	2015 \$'000
Loss before taxation		(1,860)	(197,423)
Adjustments for:			
– Depreciation	5(c)	5,501	5,390
– Amortisation	5(c)	24,774	48,376
– Finance costs	5(a)	64,491	84,801
– Interest income	4	(22)	(36)
– Foreign exchange loss	4	1,690	38,625
– Gain on disposal of PPE		–	(40)
– Impairment loss of intangible asset – service concession arrangement	5(c)	–	157,988
Changes in working capital:			
(Increase)/decrease in prepayments and other receivables		(1,707)	12
(Decrease)/increase in accruals and other payables		(17,060)	220
Increase/(decrease) in amount due to a related company		146	(3,461)
Net cash generated from operating activities		75,953	134,452

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 ACCRUALS AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Construction payables	47,179	78,366
Advance received	–	20,888
Accruals	13,940	20,753
	61,119	120,007

Included in accruals and other payables as at 31 December 2016 are contract retention deposits payable to independent contractors of \$20,849,000 (2015: \$36,763,000) and construction fees payables of \$26,330,000 (2015: \$41,261,000). All of the accruals and other payables are expected to be settled or recognised as income within one year.

17 BANK LOANS

	2016 \$'000	2015 \$'000
<i>Current liabilities</i>		
Current portion of long-term secured bank loan	69,121	26,301
Bank loan repayable on demand (note 14)	–	602,977
	69,121	629,278
<i>Non-current liability</i>		
Long-term secured bank loan	1,068,618	661,474
	1,137,739	1,290,752

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 BANK LOANS (continued)

At 31 December, the bank loans were repayable as follows:

	2016 \$'000	2015 \$'000
Within 1 year or on demand	69,121	629,278
After 1 year but within 2 years	73,687	32,877
After 2 years but within 5 years	268,296	138,084
After 5 years	726,635	490,513
	1,137,739	1,290,752

At 31 December 2016, there is no unutilised banking facility amount.

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

The bank loans of the Group are subject to certain financial covenants. The Group regularly monitors its compliance with these covenants, and adherence 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. Further details of the Group's management of liquidity risk are set out in note 20(b). As at 31 December 2016, none of the covenants relating to drawn down facilities had been breached (2015: nil).

In accordance with the accounting policy set out in note 1(r), there are no borrowing costs capitalised into intangible asset – service concession arrangement for the years ended 31 December 2016 and 2015.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(A) DEFERRED TAX ASSETS RECOGNISED:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movement during the year are as follows:

	Intangible asset – service concession arrangement
	\$'000
<i>Deferred tax arising from:</i>	
At 1 January 2015	149,880
Charged to profit or loss (note 6(a))	(2,085)
Exchange adjustment	(8,664)
	<hr/>
At 31 December 2015	139,131
	<hr/>
At 1 January 2016	139,131
Charged to profit or loss (note 6(a))	(8,351)
Exchange adjustment	(8,461)
	<hr/>
At 31 December 2016	122,319
	<hr/>

(B) DEFERRED TAX ASSETS NOT RECOGNISED:

In accordance with the accounting policy set out in note 1(n), the Group has not recognised deferred tax assets in respect of deductible temporary differences of \$2,724,000 (2015: \$157,988,000) and cumulative tax losses of \$105,607,000 (2015: \$81,184,000) as it is not probable that future taxable profits against which the temporary differences losses can be utilised will be available in the relevant tax jurisdiction and entity.

As at 31 December 2016, tax losses of \$73,175,000 (2015: \$53,800,000) in the PRC will expire in five years from the dates they were incurred, if unused.

As at 31 December 2016, tax losses of \$32,432,000 (2015: \$27,384,000) in Hong Kong do not expire under current Hong Kong tax legislation.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS

(A) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company	Share capital \$'000	Share premium \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 January 2015	4,126	130,044	510,388	(441,263)	203,295
Change in equity for 2015: Total comprehensive income for the year	–	–	–	(149,453)	(149,453)
Balance at 31 December 2015	4,126	130,044	510,388	(590,716)	53,842
Balance at 1 January 2016	4,126	130,044	510,388	(590,716)	53,842
Change in equity for 2016: Total comprehensive income for the year	–	–	–	(8,000)	(8,000)
Balance at 31 December 2016	4,126	130,044	510,388	(598,716)	45,842

(B) DIVIDENDS

No dividends has been declared or paid by the Company since its incorporation.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(C) SHARE CAPITAL

	2016		2015	
	Number of shares	Amount \$'000	Number of shares	Amount \$'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 and at 31 December	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.

(D) NATURE AND PURPOSE OF RESERVES

(i) Share premium

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

(ii) Other reserve

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

In addition, pursuant to the Group's reorganisation before its initial public offering, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from group companies amounted to \$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".

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(D) NATURE AND PURPOSE OF RESERVES (continued)

(iii) Exchange reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation. The reserve is dealt with in accordance with the accounting policy as set out in note 1(q).

(iv) Distributable reserve

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was nil (2015: nil). The long-term secured bank loan of the Group is subject to certain covenants and the Group's PRC subsidiary, Daoyue, is required to obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2014 to 2027.

(E) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders in the long run, by pricing services commensurately with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-equity ratio. For this purpose, adjusted net debt is defined as total debts (which includes accruals and other payables, amounts due to related parties and bank loans). Equity comprises all components of equity.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(E) CAPITAL MANAGEMENT (continued)

The debt-to-equity ratio of the Group at 31 December 2016 and 2015 is as follows:

	Note	2016 \$'000	2015 \$'000
Current liabilities:			
Accruals and other payables	16	61,119	120,007
Amount due to related companies	23(c)	–	14,329
Bank loans	17	69,121	629,278
		130,240	763,614
Non-current liabilities:			
Bank loans	17	1,068,618	661,474
Amount due to the controlling shareholder of the Company	23(c)	109,028	99,089
Amount due to a related company	23(c)	106,737	–
		1,284,383	760,563
Total debts		1,414,623	1,524,177
Total equity		8,457	24,603
Debt-to-equity ratio		16,727%	6,195%

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, and interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

(A) CREDIT RISK

The Group's credit risk is primarily attributable to prepayments and other receivables, and cash at bank and on hand. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

As a result of the business nature of the Group, the Group has no significant concentration of credit risk arising from its customers.

(B) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, the raising of loans to cover expected cash demands subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash, adequate committed lines of funding from major financial institutions and support from the controlling shareholder of the Company to meet its liquidity requirements in the short and longer term. Note 1(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

For the term loan subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT (continued)

(B) LIQUIDITY RISK (continued)

	Contractual undiscounted cash outflow									Carrying amount \$'000
	On demand \$'000	Within 3 months \$'000	More than 3 months but less than 6 months \$'000	More than 6 months but less than 9 months \$'000	More than 9 months but less than 1 year \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
2016										
Accruals and other payables	-	-	-	-	61,119	-	-	-	61,119	61,119
Amount due to a related company	-	-	-	-	-	-	-	106,737	106,737	106,737
Amount due to the controlling shareholder of the Company	-	-	-	-	-	-	-	109,028	109,028	109,028
Other bank loans	-	-	54,431	-	69,985	125,366	399,514	838,833	1,488,129	1,137,739
	-	-	54,431	-	131,104	125,366	399,514	1,054,598	1,765,013	1,414,623

	Contractual undiscounted cash outflow									Carrying amount \$'000
	On demand \$'000	Within 3 months \$'000	More than 3 months but less than 6 months \$'000	More than 6 months but less than 9 months \$'000	More than 9 months but less than 1 year \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	More than 5 years \$'000	Total \$'000	
2015										
Accruals and other payables	-	8,811	-	22,577	67,731	-	-	-	99,119	99,119
Amounts due to a related company	-	-	10,743	-	-	-	3,586	-	14,329	14,329
Term loan subject to repayment on demand clause:										
Scheduled repayments	-	-	-	-	615,002	-	-	-	615,002	602,977
Amount due to the controlling shareholder of the Company	-	-	-	-	-	-	99,089	-	99,089	99,089
Other bank loans	-	-	31,724	-	24,364	61,193	211,729	562,027	891,037	687,775
	-	8,811	42,467	22,577	707,097	61,193	314,404	562,027	1,718,576	1,503,289
Adjustment to disclose cash flows on term loan based on lender's right to demand repayment	600,000	-	-	-	(615,002)	-	-	-	(15,002)	
	600,000	8,811	42,467	22,577	92,095	61,193	314,404	562,027	1,703,574	

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT (continued)

(C) INTEREST RATE RISK

The Group's interest rates risk arises primarily from cash at bank and bank borrowings issued at variable rates that expose the Group to cash flow interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss. The Group's interest rate profile as monitored by management is set out in below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting year.

	2016		2015	
	Effective interest rate %	Amount \$'000	Effective interest rate %	Amount \$'000
Fixed rate instrument: Bank loan repayable on demand	–	–	7.3153	(602,977)
		–		(602,977)
Variable rate instruments: Cash at bank	0.224	10,806	0.315	9,120
Long-term secured bank loan	5.336	(1,137,739)	6.433	(687,775)
		(1,126,933)		(678,655)
Total net borrowings		(1,126,933)		(1,281,632)
Net fixed rate borrowing as a percentage of total net borrowings		0.0%		47.0%

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT (continued)

(C) INTEREST RATE RISK (continued)

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss for the year and accumulated losses by approximately \$2,817,000 in response to the general increase/decrease in interest rates (2015: \$1,272,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss for the year (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss for the year (and accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

(D) CURRENCY RISK

Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the functional currency of the operations in which they relate. However, as the principal subsidiary, Daoyue, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

At 31 December 2016, the Group is not exposed to currency risk. At 31 December 2015, the Group is exposed to currency risk primarily through one of the bank loans of Daoyue that is denominated in HKD, with carrying amount of \$602,977,000.

At 31 December 2015, assuming all other risk variables remained constant, a 1% strengthening/ (weakening) of the RMB against HKD would have increased/decreased equity and net profit by the amount of \$4,522,000. Results of the analysis represent an aggregation of the instantaneous effects on Daoyue's profit after tax and equity measured in its functional currency, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS

OPERATING LEASES

Leases as lessor

The Group leases out its service zone and billboards under operating leases, with lease terms of 22 years and 3 years respectively. At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 \$'000	2015 \$'000
Within 1 year	5,768	681
After 1 year but within 2 years	6,437	1,224
After 2 years but within 5 years	29,077	–
After 5 years	337,315	–
	378,597	1,905

During the year ended 31 December 2016, the Group recognised rental income of \$19,307,000 in revenue (note 3) and \$365,000 in other revenue (note 4) of the consolidated statement of profit or loss respectively (2015: \$41,108,000 and \$532,000).

Leases as lessee

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 two years with an option to renew the leases upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 \$'000	2015 \$'000
Within 1 year	1,138	1,365
After 1 year but within 2 years	–	1,252
	1,138	2,617

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CONTINGENT LIABILITIES

FINANCIAL GUARANTEES ISSUED

As at the end of the reporting year, the Company has issued a single guarantee to a bank in respect of a banking facility granted to a partially owned subsidiary which expires on 8 May 2027.

At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the total bank loans by the subsidiary of \$1,137,739,000 (2015: \$1,290,752,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was nil.

23 MATERIAL RELATED PARTY TRANSACTIONS

(A) DURING THE YEAR ENDED 31 DECEMBER 2016, THE DIRECTORS ARE OF THE VIEW THAT THE FOLLOWING COMPANIES ARE RELATED PARTIES OF THE GROUP:

Name of party	Relationship
Mr. Chan Yeung Nam Shenzhen Huayu Investment & Development (Group) Co., Ltd.	Controlling shareholder of the Company Under the control of the controlling shareholder of the Company

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	2016 \$'000	2015 \$'000
<i>Non recurring transactions</i>		
Expense paid on behalf of the Group by a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	146	272
Advance from a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	97,414	8,709
Repayment to a related company from the Group – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	3	12,442
Advance from the controlling shareholder of the Company	9,939	11,510

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(C) BALANCES WITH RELATED PARTIES

As at the end of the reporting period, the Group had the following balances with related parties:

	2016 \$'000	2015 \$'000
Amount due to a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	(106,737)	(14,329)
Amount due to the controlling shareholder of the Company	(109,028)	(99,089)
	(215,765)	(113,418)

Balances with related parties represented advances made 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 as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2016 \$'000	2015 \$'000
Short-term employee benefits	5,658	6,015

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

(E) APPLICABILITY OF THE LISTING RULES RELATING TO CONNECTED TRANSACTIONS

The related party transactions in respect of note 23(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 \$'000	2015 \$'000
Non-current asset			
Interests in subsidiaries	12	81,609	88,401
Current asset			
Cash and cash equivalents		1,976	2,064
Current liabilities			
Amounts due to subsidiaries		2,672	2,672
Accruals and other payables		2,723	3,191
		5,395	5,863
Net current asset		(3,419)	(3,799)
Total assets less current liabilities		78,190	84,602
Non-current liability			
Amount due to the controlling shareholder of the Company		32,348	30,760
NET ASSETS		45,842	53,842
CAPITAL AND RESERVES			
Share capital	19	4,126	4,126
Reserves		41,716	49,716
TOTAL EQUITY		45,842	53,842

Approved and authorised for issue by the board of directors on 30 March 2017.

Chan Yeung Nam
Chairman

Mai Qing Quan
Chief Executive Officer and Executive Director

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be Velocity International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements.