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HUAYU EXPRESSWAY GROUP LIMITED

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the “Board”) of directors (the “Directors”) of Huayu Expressway Group Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2018, together with comparative figures for the preceding year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

| | Note | 2018 HK\$'000 | 2017 HK\$'000 |
|--------------------------------------|------|----------------------|----------------------|
| Revenue | 4 | 204,456 | 166,928 |
| Cost of sales | | <u>(75,506)</u> | <u>(62,056)</u> |
| Gross profit | | 128,950 | 104,872 |
| Other revenue | 5 | 678 | 411 |
| Other net income | 5 | 3,079 | 2,057 |
| Administrative expenses | | <u>(27,343)</u> | <u>(23,448)</u> |
| Selling and distribution costs | | <u>(3,080)</u> | <u>–</u> |
| Profit from operations | | 102,284 | 83,892 |
| Finance costs | 6(a) | <u>(55,248)</u> | <u>(59,802)</u> |
| Profit before taxation | 6 | 47,036 | 24,090 |
| Income tax | 7 | <u>39,633</u> | <u>(5,438)</u> |
| Profit for the year | | <u>86,669</u> | <u>18,652</u> |
| Attributable to: | | | |
| Equity shareholders of the Company | | 76,580 | 15,845 |
| Non-controlling interests | | <u>10,089</u> | <u>2,807</u> |
| Profit for the year | | <u>86,669</u> | <u>18,652</u> |
| Earnings per share (HK cents) | | | |
| Basic and diluted | 9 | <u>18.56</u> | <u>3.84</u> |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Profit for the year | 86,669 | 18,652 |
| 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 | <u>(8,797)</u> | <u>7,182</u> |
| Total comprehensive income for the year | <u>77,872</u> | <u>25,834</u> |
| Attributable to: | | |
| Equity shareholders of the Company | 68,303 | 22,322 |
| Non-controlling interests | <u>9,569</u> | <u>3,512</u> |
| Total comprehensive income for the year | <u>77,872</u> | <u>25,834</u> |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

| | <i>Note</i> | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|-------------|-------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 11,323 | 13,376 |
| Intangible asset – service concession arrangement | | 1,302,242 | 1,419,122 |
| Deferred tax assets | | 157,796 | 125,270 |
| | | <u>1,471,361</u> | <u>1,557,768</u> |
| Current assets | | | |
| Inventories | | 1,917 | – |
| Prepayments and other receivables | 10 | 43,567 | 21,921 |
| Amount due from a related company | | 388,330 | – |
| Cash at bank and on hand | | 43,317 | 30,524 |
| Other current assets | | 253 | – |
| | | <u>477,384</u> | <u>52,445</u> |
| Current liabilities | | | |
| Accruals and other payables | 11 | 113,952 | 131,033 |
| Amount due to a related company | | 220,487 | – |
| Bank loan | | 79,891 | 78,855 |
| | | <u>414,330</u> | <u>209,888</u> |
| Net current assets/(liabilities) | | <u>63,054</u> | <u>(157,443)</u> |
| Total assets less current liabilities | | <u>1,534,415</u> | <u>1,400,325</u> |
| Non-current liabilities | | | |
| Bank loan | | 935,866 | 1,064,707 |
| Amount due to the controlling shareholder of the Company | | 101,976 | 121,328 |
| Amount due to a related company | | 3,877 | 179,999 |
| | | <u>1,041,719</u> | <u>1,366,034</u> |
| NET ASSETS | | <u>492,696</u> | <u>34,291</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 4,126 | 4,126 |
| Reserves | | 405,730 | 17,994 |
| Total equity attributable to equity shareholders of the Company | | <u>409,856</u> | <u>22,120</u> |
| Non-controlling interests | | 82,840 | 12,171 |
| TOTAL EQUITY | | <u>492,696</u> | <u>34,291</u> |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 April 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the construction, operation and management of an expressway in the People's Republic of China ("PRC").

2. 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.

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 3 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 2018 comprise 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.

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.

As of 31 December 2018, the Group had net current assets of HK\$63,054,000 (2017: net current liabilities of HK\$157,443,000) and accumulated losses of HK\$580,931,000 (2017: HK\$657,511,000). On 17 December 2018, the Group completed the disposal of 30% equity interest in a subsidiary (the “Transaction”), which introduced a strategic partner to the Group and strengthened the Group’s cash position. The net proceeds of HK\$388,330,000 from the Transaction, which was included in amount due from a related company and has been received subsequently (see (iv) below), will mainly be used as general working capital for the payment of operating costs, such as staff costs and/or lowering the indebtedness of the Group by possible repayment of loans and liabilities such as bank loan.

As of 31 December 2018, the Group had a bank loan of HK\$1,015,757,000 (2017: HK\$1,143,562,000) and borrowings from related parties of HK\$326,340,000 (2017: HK\$301,327,000), with the finance costs of HK\$55,248,000 (2017: HK\$59,802,000) incurred for the year then ended. 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.

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 HK\$101,976,000 at 31 December 2018 and advance from a related company of HK\$3,877,000 at 31 December 2018 will not be requested until after 31 December 2019, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time;
- (iii) the controlling shareholder has confirmed 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; and
- (iv) the receivable from the Transaction of HK\$382,401,000 has been received on 8 January 2019 and on 1 February 2019 the non-controlling shareholder has provided a financial support of HK\$110,930,000 to Hunan Daoyue Expressway Industry Co., Ltd., the only subsidiary of the Group which has material non-controlling interest.

Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern and has prepared the financial statements on a going concern basis.

(c) **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 is principally engaged in the construction, operation and management of an expressway in the PRC. Since construction, operation and management of an expressway in the PRC attributed to majority of the Group's revenue, results and assets during the year ended 31 December 2018, no segmental analysis is presented.

3. CHANGES IN ACCOUNTING POLICIES

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

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*
- (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

None of these developments has a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) **HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation***

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. There is no opening balance adjustments recognised for the consolidated statement of financial position that has been impacted by HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (i.e. trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

b. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or
- When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. However, the adoption of HKFRS 15 does not have any material impact on neither the financial position nor the timing of revenue recognise and financial results of the Group. Therefore, comparative information has not been restated.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

4. 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 sales of liquor and spirits. The amount of each significant category of revenue recognised in revenue during the year is as follows:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Toll income | 202,059 | 166,928 |
| Sales of liquor and spirits | 2,397 | – |
| | <u>204,456</u> | <u>166,928</u> |

All the above revenue of the Group were recognised at a point in time.

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

5. OTHER REVENUE AND NET INCOME

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Other revenue | | |
| Billboard rental income | 576 | 315 |
| Interest income from bank deposits | 102 | 96 |
| | <u>678</u> | <u>411</u> |
| Other net income | | |
| Net foreign exchange gain | 2,304 | 1,914 |
| Others | 775 | 143 |
| | <u>3,079</u> | <u>2,057</u> |

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|-----------------------|-------------------------|-------------------------|
| Interest on bank loan | <u>55,248</u> | <u>59,802</u> |

There is no borrowing costs capitalised for the year ended 31 December 2018 (2017: Nil).

(b) Staff costs

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Salaries, wages and other benefits | 20,700 | 17,825 |
| Contributions to defined contribution retirement plans | <u>3,662</u> | <u>2,929</u> |
| | <u>24,362</u> | <u>20,754</u> |

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the “Scheme”) organised by the local authority whereby the PRC subsidiaries are 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**

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditors' remuneration | | |
| – Audit and review services | 2,716 | 2,451 |
| – Other services | 340 | 322 |
| Depreciation | 2,573 | 2,656 |
| Amortisation | 48,556 | 37,082 |
| Operating lease charges in respect of rental of office premises | 1,497 | 1,312 |
| Cost of inventories | 1,495 | – |

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) **Taxation in the consolidated statement of profit or loss represents:**

| | 2018 | 2017 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deferred tax | | |
| Reversal and origination of temporary differences | (39,633) | 5,438 |

- (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 2018 and 2017.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are subject to PRC corporate income tax at a rate of 25% (2017: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiaries used its accumulated tax losses carried from previous years or did not have assessable profits. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset – service concession arrangement, deductible tax losses and other deductible temporary differences.

(b) **Reconciliation between income tax and accounting profit at applicable tax rates:**

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit before taxation | <u>47,036</u> | <u>24,090</u> |
| Notional tax on profit before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned | 12,645 | 7,550 |
| Tax effect on tax losses not recognised | 403 | 827 |
| Tax effect on deductible temporary differences not recognised | – | 91 |
| Tax effect of non-deductible expenses | 194 | 39 |
| Tax effect on temporary differences not recognised in previous years | (46,325) | – |
| Use of tax losses carried from previous years | <u>(6,550)</u> | <u>(3,069)</u> |
| Income tax | <u>(39,633)</u> | <u>5,438</u> |

8. DIVIDENDS

Dividends payable to equity shareholders of the Company:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Special dividend proposed after the end of the reporting period of HK12.1 cents per ordinary share (2017: Nil) | <u>49,926</u> | <u>–</u> |

The special dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

9. EARNINGS PER SHARE

(a) **Basic earnings per share**

| | 2018 <i>'000</i> | 2017 <i>'000</i> |
|---|---------------------|---------------------|
| Issued ordinary shares at 1 January | <u>412,608</u> | <u>412,608</u> |
| Weighted average number of ordinary shares at 31 December | <u>412,608</u> | <u>412,608</u> |

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of HK\$76,580,000 (2017: HK\$15,845,000) and the weighted average number of 412,608,000 (2017: 412,608,000) shares in issue during the year.

(b) **Diluted earnings per share**

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

10. PREPAYMENTS AND OTHER RECEIVABLES

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

11. ACCRUALS AND OTHER PAYABLES

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|-----------------------|-------------------------|-------------------------|
| Construction payables | 65,866 | 101,505 |
| Suspense receipts | 27,043 | 16,182 |
| Accruals | 14,727 | 11,631 |
| Interest payable | 1,403 | 1,715 |
| Other payable | 4,913 | – |
| | <u>113,952</u> | <u>131,033</u> |

Included in accruals and other payables as at 31 December 2018 are contract retention deposits payable to independent contractors of Nil (2017: HK\$126,000) and construction fees payables of HK\$65,866,000 (2017: HK\$101,379,000). All of the accruals and other payables are expected to be settled or recognised as income within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

With the significant traffic introduced by the new adjacent expressways, total toll revenue increased substantially during the year ended 31 December 2018. The Group reported a profit for the year of about HK\$86.7 million.

TURNOVER

For the year ended 31 December 2018, the Group recorded a turnover of approximately HK\$204.5 million, increased by 22.5% from that for the year ended 31 December 2017 of approximately HK\$166.9 million. Total amount of toll fee revenue of the Expressway was about HK\$202.1 million, increased substantially by 21.1% from about HK\$166.9 million for the year ended 31 December 2017. Average traffic of the Expressway was about 774,000 vehicles per month, increased by 34.4% from about 576,000 vehicles per month for the year ended 31 December 2017.

During the year, continuous improvement in the highway network system within the districts around the Expressway induced significant amount of traffic to the Expressway. Opened to traffic during the year, Yue-Wang Expressway “岳望高速” is the southern extension of the Expressway and completed the whole vertical corridor to bring new long-distance traffic on the Expressway. In addition, due to the maintenance work of the Wuhan Junshan Bridge “武漢軍山大橋”, trucks were prohibited from using it to cross the Yangtze River, and then large number of trucks are induced to the Expressway.

Average toll per vehicle decreased by about 9.9% from about HK\$24.2 per vehicle for the year ended 31 December 2017 to about HK\$21.8 per vehicle for the year ended 31 December 2018. Since more passenger cars induced to our Expressway, the portion of trucks traffic, which has a higher toll rate, decreased from about 45.5% for the year ended 31 December 2017 to about 44.3% for the year ended 31 December 2018.

On the other hand, the Group commenced the trading of liquor and spirits to diversify its business to other area. Total revenue from the trading of liquor and spirits was about HK\$2.4 million for the year ended 31 December 2018.

GROSS PROFIT

The Group had a gross profit of HK\$129.0 million for the year ended 31 December 2018, increased by about 23.0% from about HK\$104.9 million for the year ended 31 December 2017. The increase in gross profit was mainly due to the growth in toll revenue during the year.

The gross profit ratios were about 63.1% and 62.8% for the year ended 31 December 2018 and 2017 respectively.

OTHER REVENUE AND OTHER NET INCOME

The Group recorded other revenue of approximately HK\$0.7 million and HK\$0.4 million for the year ended 31 December 2018 and 2017 respectively. In addition, the other net income were about HK\$3.1 million for the year ended 31 December 2018 and HK\$2.1 million for the year ended 31 December 2017. Other revenue of the Group were mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net income mainly represented the exchange gain recorded during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2018 was approximately HK\$27.3 million, increased by 16.7% from approximately HK\$23.4 million for the year ended 31 December 2017. The increase was mainly because of the rise in the staff cost during the year.

FINANCE COSTS

For the year ended 31 December 2018, the finance costs of the Group was about HK\$55.2 million, decreased by about 7.7% from approximately HK\$59.8 million for the year ended 31 December 2017. The decrease was mainly due to the partial repayment of the bank loan during the year.

INCOME TAX

Income tax benefits for the year ended 31 December 2018 was about HK\$39.6 million while the income tax charges was about HK\$5.4 million for the year ended 31 December 2017. During the year, there was no provision for the income tax has been made for both Hong Kong profits tax and PRC corporate income tax. The Group had no assessable profits subject to Hong Kong profits tax during the year ended 31 December 2018. For the PRC corporate income tax, the Group used its accumulated tax losses carried from previous years to offset the assessable profits for the year or did not have assessable profits. The income tax benefits mainly arose from the tax effect on temporary differences not recognised in previous year. These temporary differences are in connection with the impairment provision and construction profit of intangible asset – service concession arrangement and deductible tax losses.

PROFIT FOR THE YEAR

With the increase in the toll revenue, the saving in the interest cost and the income tax benefits, the Group recorded a profit for the year of approximately HK\$86.7 million for the year ended 31 December 2018 compared to approximately HK\$18.7 million for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2018, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loan and interest free loans from the controlling shareholder of the Company. As at 31 December 2018, total bank loan drawn by the Group were about HK\$1,015.8 million (2017: HK\$1,143.6 million), the amount due to the controlling shareholder of the Company was about HK\$102.0 million (2017: HK\$121.3 million), the amount due to a related company was about HK\$224.4 million (2017: HK\$180.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK\$43.3 million (2017: HK\$30.5 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2018, total available banking facilities of the Group amounted to about HK\$1,255.4 million from China Merchants Bank, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was about HK\$1,015.8 million (2017: HK\$1,143.6 million). The ratio of outstanding bank loan to total equity was about 206.2% (2017: 3,334.9%).

As at 31 December 2018, the bank loan was repayable as follows:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|----------------------------------|--------------------------------|-------------------------|
| Within 1 year or on demand | 79,891 | 78,855 |
| After 1 year but within 2 years | 91,304 | 83,741 |
| After 2 years but within 5 years | 342,390 | 323,001 |
| After 5 years | 502,172 | 657,965 |
| | 1,015,757 | 1,143,562 |

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2018, 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 2018, 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.

PLEDGE OF ASSETS

As at 31 December 2018, the bank loan of HK\$1,015.8 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Expressway.

CAPITAL COMMITMENTS

As at 31 December 2018, there was no material capital commitment outstanding for the Company.

BUSINESS REVIEW

The Expressway (Hunan Section)

With the completion of adjacent highways in the past two years, there was a significant increase in the traffic flow in the Expressway during the year ended 31 December 2018. Hang-Rui Expressway (Hunan Section) “杭瑞高速(湖南段)”, opened in late 2016 and Yue-Wang Expressway “岳望高速”, opened in 2018 connected the Expressway to the whole expressway network of Hunan province and induced significant traffic to the Expressway. In addition, the maintenance work of the Wuhan Junshan Bridge “武漢軍山大橋” prohibited trucks from using it to cross the Yangtze River, large number of trucks are induced to the Expressway during the year. The traffic flow achieved a record high of about 774,000 vehicles per month for the year ended 31 December 2018 since commencement of operation.

Although the new private car traffic flow lowered the proportion of trucks traffic flow for the Expressway and then the average toll per vehicle from approximately HK\$24.2 per vehicle for the year ended 31 December 2017 to HK\$21.8 per vehicle for the year ended 31 December 2018, total toll revenue for the year ended 31 December 2018 increased by 21.1% to HK\$202.1 million, the record highest annual toll revenue. With the continuous growth in the traffic flow, the management are confident with the prospect of the Expressway.

Disposal of 30% of the interest in the Expressway

On 18 October 2018, the Group entered into an agreement with Guangdong Xin Chuan Co., Ltd., a subsidiary of NWS Holdings Limited (“NWS”), a company listed on the Main Board of the Stock Exchange to dispose of 30% interest in the Expressway for a consideration of about RMB352.5 million. All the conditions precedent under the agreement have been fulfilled and completion took place on 17 December 2018. On 8 January 2019, about RMB335.1 million, after the deduction of the PRC income tax and other related tax, was received.

After the transaction, the Group’s interest in the Expressway decreased from 90% to 60%. Yet, the transaction brought a lot of benefits to the Group and the shareholders of the Company. Through this transaction, we brought a strategic partner to the Group in the view that NWS has a leading market position in the roads business. With the participation of management in the Expressway and the provision of financial support to the Expressway, the new strategic partner can benefit and contribute to the business development of the Expressway.

Moreover, the transaction provided an opportunity for the Group to unlock the value of the Expressway for the interest of the Group and the shareholders of the Company. A gain on disposal of partial interests in subsidiary of about HK\$319.4 million was recognised in the equity account of the Group. On 4 February 2019, the Company decided to declare a special dividend of HK12.1 cents per share. This special dividend was paid on about 12 March 2019.

Trading of Liquor and Spirits

With the good relationship with the Kweichow Moutai Group, the Group entered into a Sole Distributorship Agreement during the year for the distribution and sales of Huamaojiu in the PRC. Huamaojiu is one of the famous brand liquor produced by Kweichow Moutai Group with retail price about RMB500 to RMB1,000 per standard 500ml bottle. According to the Sole Distributorship Agreement, the Group will be responsible for the sales and distribution, brand building and the establishment of distribution network throughout the PRC.

Employees and emoluments

As at 31 December 2018, the Group employed a total of 285 (2017: 269) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2018, the Group's total expenses on the remuneration of employees were approximately HK\$24.4 million (2017: HK\$20.8 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (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 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. No options have been granted under the share option scheme as at 31 December 2018.

PROSPECTS

The Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the completion of the adjacent expressways these years, the management of the Company are full of confidence about the prospect of the Expressway.

Opened to traffic in 2018, Yue-Wang Expressway “岳望高速” is the southern extension of the Expressway and will complete the whole vertical corridor to bring new long-distance traffic on the Expressway. These new expressways will introduce significant positive impact to the Expressway in the coming few years.

After the realisation of the 30% interest in the Expressway, there was a gain on disposal of partial interests in subsidiary of about HK\$319.4 million recognised in the equity account of the Group. This significantly improved the liquidity and cash flow of the Group.

About the trading of liquor and spirits, the Group is now working on the brand building and the development of sale and distribution network. With the excellent quality and brand position in the PRC market, Maotai liquor will become one of the most profitable segments in the Group in the future.

With the experience of the Directors in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them with 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 accordance with this strategy, 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 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, the Group will also consider extending its operation to include some other prosperous business once favourable opportunity appears.

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 announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issue shares as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2018.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2018.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (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 2018, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise interests of the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct for securities transactions 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 2018.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the CG Code. The audit committee is accountable to the Board and the primary duties of which include the review and supervision of the Group’s financial reporting process and internal control measures. The audit committee comprises all three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee of the Company and has professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the year ended 31 December 2018. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2018 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

FINAL DIVIDEND

The Board does not recommend any final dividend payment for the year ended 31 December 2018.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 3 June 2019. Notice of the annual general meeting will be issued and dispatched to shareholders of the Company in due course. The Company’s register of members will be closed from 29 May 2019 to 3 June 2019 (both days inclusive), during such period no transfer of the shares of the Company (the “Shares”) will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfers of Shares accompanied by the relevant Share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on 28 May 2019.

PUBLICATION OF 2018 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is also published on the website of the Company (www.huayu.com.hk), and the website of the Stock Exchange (www.hkexnews.hk) and the 2018 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express thanks and gratitude on behalf of the Company to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers and bankers for their continuous support.

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

Hong Kong, 22 March 2019

As at the date of this announcement, the executive Directors are Mr. Chan Yeung Nam, Mr. Mai Qing Quan and Mr. Fu Jie Pin and the independent non-executive Directors are Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.