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
INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK$202.1 million, representing an increase of approximately 92.8% over the corresponding period of last year.
- Gross profit for the Period was approximately HK$95.8 million, representing an increase of approximately 41.5% over the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK$24.7 million, representing an increase of approximately 26.7% over the corresponding period of last year.
- Basic and diluted earnings per share for the Period amounted to HK$5.99 cents, representing an increase of approximately 26.9% over the corresponding period of last year.

The board (the "Board") of directors (the "Directors") of Huayu Expressway Group Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 (the "Period"), together with the comparative figures for the corresponding period in 2018. The interim financial report for the Period is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of interim financial information performed by the independent auditor of the entity*", issued by the Hong Kong Institute of Certified Public Accountants.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 – unaudited

		Six months ended 30 June	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**202,080**	104,775
Cost of sales		**(106,326)**	(37,045)
Gross profit		**95,754**	67,730
Other revenue		**1,323**	341
Other net income/(loss)		**1,246**	(49)
Administrative expenses		**(20,020)**	(12,651)
Selling and distribution costs		**(7,844)**	–
Profit from operations		**70,459**	55,371
Finance costs	*5(a)*	**(27,978)**	(29,059)
Profit before taxation	*5*	**42,481**	26,312
Income tax	*6*	**(11,597)**	(4,320)
Profit for the period		**30,884**	21,992
Attributable to:			
Equity shareholders of the Company		**24,700**	19,462
Non-controlling interests		**6,184**	2,530
Profit for the period		**30,884**	21,992
Earnings per share (HK Cents)			
Basic and diluted	*7*	**5.99**	4.72

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – unaudited

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit for the period	**30,884**	21,992
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	**(2,784)**	(1,908)
Total comprehensive income for the period	**28,100**	20,084
Attributable to:		
Equity shareholders of the Company	**22,356**	17,743
Non-controlling interests	**5,744**	2,341
Total comprehensive income for the period	**28,100**	20,084

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2019 – unaudited

	Note	**At 30 June 2019** **HK$'000**	At 31 December 2018 HK$'000
Non-current assets			
Property, plant and equipment		**16,884**	11,323
Intangible asset – service concession arrangement		**1,280,057**	1,302,242
Deferred tax assets		**150,237**	157,796
		1,447,178	1,471,361
Current assets			
Inventories		**37,305**	1,917
Prepayments and other receivables	*8*	**57,522**	43,567
Amount due from related parties		**11,709**	388,330
Cash and cash equivalents		**232,099**	43,317
Other current assets		**47**	253
		338,682	477,384
Current liabilities			
Accruals and other payables	*9*	**94,629**	113,952
Contract liabilities		**21,962**	–
Amount due to related companies		**575**	220,487
Bank loan and other borrowing		**85,260**	79,891
Lease liabilities		**1,271**	–
		203,697	414,330
Net current assets		**134,985**	63,054
Total assets less current liabilities		**1,582,163**	1,534,415

	Note	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Non-current liabilities			
Bank loan and other borrowing		**997,166**	935,866
Amount due to the controlling shareholder of the Company		**101,976**	101,976
Amount due to a related company		**–**	3,877
Lease liabilities		**1,861**	–
		1,101,003	1,041,719
NET ASSETS		**481,160**	492,696
CAPITAL AND RESERVES			
Share capital		**4,126**	4,126
Reserves		**383,617**	405,730
Total equity attributable to equity shareholders of the Company		**387,743**	409,856
Non-controlling interests		**93,417**	82,840
TOTAL EQUITY		**481,160**	492,696

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 23 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. Details of any changes in accounting judgements and estimates are set out in note 3.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. In the auditors' report dated 22 March 2019, the auditors expressed an unqualified opinion on those financial statements.

As of 30 June 2019, the Group had net current assets of HK$134,985,000 and accumulated losses of HK$558,187,000. 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$394,012,000 from the Transaction, which has been received during the period (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 30 June 2019, the Group had a bank loan of HK$971,964,000 and borrowing from a related party of HK$110,462,000 with finance costs of HK$27,905,000 incurred for the period then ended. The Group is dependent upon the financial support from its bankers, its controlling shareholder and the non-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 30 June 2019 will not be requested until after 31 December 2020, 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 net proceeds of HK$387,996,000 and HK$6,016,000 from the Transaction have been received on 8 January 2019 and 16 May 2019 respectively, and on 1 February 2019 the non-controlling shareholder has provided a financial support of HK$112,522,000 to Hunan Daoyue Expressway Industry Co., Ltd., a 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 interim financial report on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has recognised right-of-use assets based on lease liabilities. Therefore, there was no adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically warehouses. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.13%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	HK$'000
Operating lease commitments at 31 December 2018	1,203
Less: commitments relating to leases exempt from capitalisation:	
– administrative costs that are not components in a contract	(107)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	2,894
	3,990
Less: total future interest expenses	(273)
Total lease liabilities recognised at 1 January 2019	3,717

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

Based on the Group's assessment on the adoption of HKFRS 16, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17, there is no significant impact on the Group's financial result.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

3 ACCOUNTING JUDGEMENTS 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.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2018 annual financial statements.

Change in accounting estimates in respect of the amortisation of intangible assets relating to service concession arrangement

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 May 2019, 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 2019 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:

	Six months ended 30 June 2019 *HK$'000*	**Twelve months ending 31 December 2019** *HK$'000*	**2020** *HK$'000*	**2021 and the year after 2021** *HK$'000*
(Decrease)/increase of amortisation	(8,360)	(523)	(1,003)	1,526

4 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and of customers is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
– Toll income	**94,985**	104,775
– Sales of liquor and spirits	**107,095**	–
	202,080	104,775

Since the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

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

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	the Expressway		Liquor and spirits		Total	
For the six months ended	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**94,985**	104,775	**107,095**	–	**202,080**	104,775
Interest income from bank deposits	**(133)**	(42)	**(51)**	–	**(184)**	(42)
Interest expenses	**31,245**	29,059	**–**	–	**31,245**	29,059
Depreciation and amortisation	**19,038**	26,087	**13**	–	**19,051**	26,087
Reportable segment profit (adjusted EBITDA)	**72,576**	84,725	**19,796**	–	**92,372**	84,725
Impairment of intangible assets – service concession arrangement	**–**	–	**–**	–	**–**	–
As at 30 June/31 December						
Reportable segment assets	**1,554,166**	1,527,570	**126,796**	30,067	**1,680,962**	1,557,637
Reportable segment liabilities	**1,332,706**	1,320,470	**34,152**	30,856	**1,366,858**	1,351,326

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Reportable segment profit (adjusted EBITDA)	**92,372**	84,725
Reportable segment profit derived from group's external customers and joint venture	**92,372**	84,725
Other revenue	**902**	–
Other net income/(loss)	**1,160**	(191)
Depreciation and amortisation	**(19,707)**	(26,087)
Finance costs	**(27,978)**	(29,059)
Unallocated head office and corporate expenses	**(4,268)**	(3,076)
Consolidated profit before taxation	**42,481**	26,312

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2019	2018
		HK$'000	*HK$'000*
(a)	Finance costs:		
	Interest on bank loan and other borrowing	**27,905**	29,059
	Interest on lease liabilities	**73**	–
		27,978	29,059
(b)	Staff costs:		
	Salaries, wages and other benefits	**14,545**	9,204
	Contributions to defined contribution retirement plans	**6,576**	1,854
		21,121	11,058
(c)	Other items:		
	Depreciation charge		
	– owned property, plant and equipment	**1,501**	1,323
	– right-of-use assets	**656**	–
	Amortisation	**17,550**	24,764
	Operating lease	**163**	871

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current tax – PRC corporate income tax	**4,495**	–
Deferred tax – Origination and reversal of temporary differences	**7,102**	4,320
	11,597	4,320

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods ended 30 June 2019 and 2018.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC is liable to PRC corporate income tax at a rate of 25% (2018: 25%) on its 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.

7 EARNINGS PER SHARE

(a) Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company for the period of HK$24,700,000 (six months ended 30 June 2018: HK$19,462,000) and the weighted average number of 412,608,000 (2018: 412,608,000) shares in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2019 and 2018, therefore, diluted earnings per share is equivalent to basic earnings per share.

8 PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
Prepayments	**37,338**	16,963
Other receivables	**20,184**	26,604
	57,522	43,567

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

9 ACCRUALS AND OTHER PAYABLES

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
Construction payables	**39,638**	65,866
Toll fee payable	**23,005**	27,043
Accruals	**26,907**	14,727
Interest payable	**3,578**	1,403
Other payables	**1,501**	4,913
	94,629	113,952

All of the accruals and other payables are expected to be settled or recognised as income within one year.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the Period (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded revenue of approximately HK$202.1 million, increased by about 92.8% from the corresponding period of last year of approximately HK$104.8 million. The increase was mainly due to the fast growing liquor and spirits trading business during the Period.

The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the "Expressway") for the Period was about HK$95.0 million, decreased by 9.4% from about HK$104.8 million of the corresponding period in 2018. The tightened control about over-weighted trucks during the Period and the completion of the maintenance work of the Wuhan Junshan Bridge "武漢軍山大橋" in December 2018 significantly affected the number of large trucks using the Expressway and the average toll per vehicle. Average toll per vehicle decreased by 26.5% to about HK$16.6 for the Period. Yet, for the Period, continuous improvement in the highway network system within the districts around the Expressway induced significant amount of traffic to the Expressway. The average traffic flow of the Expressway was about 956,000 vehicles per month representing a 23.5% increase from the corresponding period of last year.

The Group commenced the trading business of liquor and spirits in the final quarter of 2018. Total revenue from the trading business of liquor and spirits was about HK$107.1 million for the Period.

Cost and gross profit

The Group had a gross profit of approximately HK$95.8 million for the Period, increased by 41.5% from about HK$67.7 million for the corresponding period of last year. The increase in gross profit was mainly due to the contribution from liquor and spirits trading business during the Period.

The gross profit ratio was about 47.4%, decreased by 26.6% from the corresponding period of last year of about 64.6%. For the Expressway, the cost of sales was approximately HK$31.7 million and the gross profit ratio was about 66.6% for the Period. The gross profit ratio slightly increased from 64.6% of the corresponding period of last year due to the decrease in the amortisation charges after the adjustment of the accounting estimate with respective to the updated total projected traffic volume. The total cost of sales for the liquor and spirits trading business was about HK$74.7 million and its gross profit ratio was about 30.3% for the Period.

Other revenue and other net income/(loss)

The Group recorded other revenue of approximately HK$1.3 million for the Period and HK$0.3 million for the corresponding period of last year. In addition, the other net income was about HK$1.2 million for the Period. Other revenue of the Group mainly referred to 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 Period.

Administrative expenses

Administrative expenses for the Period were approximately HK$20.0 million, increased by 57.5% from approximately HK$12.7 million for the corresponding period of last year. The increase was mainly because of the rise in the staff cost during the Period from the Expressway operation and the new liquor and spirits trading business.

Selling and distribution costs

The Group recorded about HK$7.8 million selling and distribution costs, including, advertising fee and staff salary for the Period. The amount was mainly used for the liquor and spirits trading business.

Finance costs

For the Period, the finance costs of the Group was about HK$28.0 million, decreased by about 3.8% from approximately HK$29.1 million for the corresponding period of last year. The decrease was mainly due to the partial repayment of the bank loan during the Period.

Profit for the Period

The profit for the Period of the Group was approximately HK$30.9 million, increased significantly by 40.5% from the corresponding period of last year of approximately HK$22.0 million. The growth in the profit was mainly due to the new liquor and spirits trading business.

Liquidity and financial resources

During the Period, the Group financed its operations and capital expenditures with internal resources of the Company, borrowings from the controlling shareholder of the Company and the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd. and long term bank loan. As at 30 June 2019, total bank loan drawn by the Group amounted to about HK$972.0 million (as at 31 December 2018: approximately HK$1,015.8 million), borrowing from the non-controlling shareholder of a subsidiary was HK$110.5 million (as at 31 December 2018: Nil), the amount due to the controlling shareholder of the Company was about HK$102.0 million (as at 31 December 2018: HK$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK$232.1 million (as at 31 December 2018: approximately HK$43.3 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2019, total banking facilities of the Group amounted to approximately HK$972.0 million from China Merchants Bank, which were mainly for the settlement of construction costs of the Expressway. The ratio of total outstanding bank loan and other borrowing to total equity was 2.25 (as at 31 December 2018: 2.06).

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

Employees and emoluments

As at 30 June 2019, the Group employed a total of 291 (as at 31 December 2018: 285) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the Period, the Group's total expenses on the remuneration of employees were approximately HK$21.1 million (2018: approximately HK$11.1 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses, restricted share award scheme and employee share options may also be awarded to employees according to the assessment of individual performance.

Foreign exchange risk

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

As at 30 June 2019, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

PLEDGE OF ASSETS

As at 30 June 2019, the bank loan of approximately HK$972.0 million from China Merchants Bank was secured by a pledge of the toll collection right owned by the Expressway.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

Due to the improvement in the highway network system in the districts along the Expressway, there was a significant increase in the traffic flow in the Expressway during the Period, from about 774,000 vehicles per month for the six months ended 30 June 2018 to about 956,000 vehicles per month for the Period. The newly completed highways in the past few years, such as Hang-Rui Expressway (Hunan Section) "杭瑞高速(湖南段)"and Yue-Wang Expressway "岳望高速"significantly induced new traffic to the Expressway for the Period. Yet, because of the completion of the maintenance work of the Wuhan Junshan Bridge "武漢軍山大橋" in December 2018, trucks were resumed to use it to cross the Yangtze River, the proportion of trucks traffic flow decreased from about 41.7% for the six months ended 30 June 2018 to about 36.2% for the Period. In addition, with the implementation of tightened control about over-weighted trucks in the Expressway, the average toll per vehicle for the Period was about HK$16.6, decreased by 26.5% from the corresponding period of last year of about HK$22.6. As a result, the total toll revenue decreased by about 9.4% to approximately HK$95.0 million for the Period.

Trading of Liquor and Spirits

With the good relationship with the Kweichow Moutai Group, the Group entered into a sole distributorship agreement for the distribution and sales of Huamaojiu in the PRC in 2018 and commenced its liquor and spirits trading business from the last quarter last year. Huamaojiu is one of the famous liquor brands 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 of the Huamaojiu throughout the PRC. For the Period, we appointed about 69 distributors throughout the country and total sales were about HK$107.1 million.

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 had been fulfilled and completion took place on 17 December 2018. On 8 January 2019 and 16 May 2019, about RMB335.1 million and RMB5.2 million, after the deduction of the PRC income tax and other related tax, were received respectively.

After completion of 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 in 2018. On 4 February 2019, the Company decided to declare a special dividend of HK12.1 cents per share. This special dividend was paid on or about 12 March 2019.

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. According to the Statistical Yearbook of Hunan Province and China (2014-2018), the average Real GDP Growth of Hunan Province for the years from 2014 to 2018 was about 8.4%, which is higher than the country average of about 6.8%. Since the adjacent expressway network system was completed in the past few years, the economic growth of the regions around the Expressway will be the most significant factor for the growth of traffic flow. With the out-performed economic growth in the region, the management of the Group are full of confidence about the prospect of the Expressway.

After the realisation of the 30% interest in the Expressway, there was a cash inflow of about HK$394.0 million recorded for the Period. This significantly improved the liquidity and cash flow of the Group.

About the trading of liquor and spirits, the Group has been working on the brand building and the development of sale and distribution network. With the excellent quality and brand position of Huamaojiu in the PRC market, it becomes one of the most profitable segments in the Group.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s shares for the Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of its shareholders. It had adopted the code provisions contained in the Corporate Governance Code ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has complied with the code provisions contained in the CG Code for the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") which is accountable to the Board and the primary duties of which include the reviewing and supervising of the Group's financial reporting process and internal control measures. The Audit Committee is comprised of 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. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The Audit Committee 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 unaudited results of the Group for the Period. The Audit Committee considered that the unaudited consolidated results of the Group for the Period are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk), and the 2019 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

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

Hong Kong, 23 August 2019

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