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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 2019

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 2019, together with comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Revenue	4	456,986	204,456
Cost of sales		(237,800)	(75,506)
Gross profit		219,186	128,950
Other revenue	5	2,151	678
Other net (loss)/income	5	(6,456)	3,079
Administrative expenses		(43,349)	(27,343)
Selling and distribution costs		(20,837)	(3,080)
Profit from operations		150,695	102,284
Financial costs	6(a)	(54,594)	(55,248)
Share of profit or loss of an associate		308	–
Profit before taxation	6	96,409	47,036
Income tax	7	(27,784)	39,633
Profit for the year		68,625	86,669
Attributable to:			
Equity shareholders of the Company		50,420	76,580
Non-controlling interests		18,205	10,089
Profit for the year		68,625	86,669
Earnings per share (HK cents)			
Basic and diluted	8	12.22	18.56

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year	68,625	86,669
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>(8,700)</u>	<u>(8,797)</u>
Total comprehensive income for the year	<u>59,925</u>	<u>77,872</u>
Attributable to:		
Equity shareholders of the Company	43,948	68,303
Non-controlling interests	<u>15,977</u>	<u>9,569</u>
Total comprehensive income for the year	<u>59,925</u>	<u>77,872</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		19,042	11,323
Intangible asset – service concession arrangement		1,236,431	1,302,242
Interests in an associate		2,423	–
Deferred tax assets		140,387	157,796
		<u>1,398,283</u>	<u>1,471,361</u>
		-----	-----
Current assets			
Inventories		63,880	1,917
Prepayments and other receivables	<i>9</i>	55,924	43,567
Amounts due from related parties		10,382	388,330
Cash and cash equivalents		234,863	43,317
Other current assets		–	253
		<u>365,049</u>	<u>477,384</u>
		-----	-----
Current liabilities			
Accruals and other payables	<i>10</i>	90,690	113,952
Contract liabilities		25,287	–
Amounts due to related parties		758	220,487
Bank loan and other borrowing		89,304	79,891
Lease liabilities		1,291	–
		<u>207,330</u>	<u>414,330</u>
		-----	-----
Net current assets		<u>157,719</u>	<u>63,054</u>
		-----	-----
Total assets less current liabilities		<u>1,556,002</u>	<u>1,534,415</u>
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	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current liabilities			
Bank loan and other borrowing		934,532	935,866
Amount due to the controlling shareholder of the Company		101,976	101,976
Amounts due to related parties		–	3,877
Lease liabilities		1,787	–
		<u>1,038,295</u>	<u>1,041,719</u>
NET ASSETS		<u>517,707</u>	<u>492,696</u>
CAPITAL AND RESERVES			
Share capital		4,126	4,126
Reserves		404,676	405,730
Total equity attributable to equity shareholders of the Company		408,802	409,856
Non-controlling interests		108,905	82,840
TOTAL EQUITY		<u>517,707</u>	<u>492,696</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the 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 and the trading of liquor and spirits 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 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associate.

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.

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 manages its businesses by business lines. 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 presented the following two reportable segments:

- the Expressway, construction, operation and management of an expressway;
- Liquor and spirits, distribution of Kweichow Moutai Chiew products.

3. 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. 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an 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. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that 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. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (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 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, where the lease term ends on or before 31 December 2019; and
- (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).

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 <i>HK\$'000</i>
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	<u>2,894</u>
	3,990
Less: total future interest expenses	<u>(273)</u>
Total lease liabilities recognised at 1 January 2019	<u><u>3,717</u></u>

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.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 January 2019 <i>HK\$'000</i>
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	11,323	3,717	15,040
Total non-current assets	1,471,361	3,717	1,475,078
Lease liabilities (current)	–	1,190	1,190
Current liabilities	414,330	1,190	415,520
Net current assets	63,054	(1,190)	61,864
Total assets less current liabilities	1,534,415	2,527	1,536,942
Lease liabilities (non-current)	–	2,527	2,527
Total non-current liabilities	1,041,719	2,527	1,044,246
Net assets	492,696	–	492,696

c. *Impact on the financial result 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 positive 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.

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 change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated 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 in 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.

	2019			Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) HK\$'000	2018 Compared to amounts reported for 2018 under HKAS 17 HK\$'000
	Amounts reported under HKFRS 16 (A) HK\$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (C) HK\$'000		
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	150,695	1,242	1,424	150,513	102,284
Finance costs	(54,594)	146	–	(54,448)	(55,248)
Profit before taxation	96,409	1,388	1,424	96,373	47,036
Profit for the year	68,625	1,388	1,424	68,589	86,669
Reportable segment profit (adjusted EBITDA) for year ended 31 December 2019 (note 4(b)) impacted by the adoption of HKFRS 16:					
the Expressway	147,410	–	–	147,410	161,432
Liquor and spirits	50,388	119	135	50,372	(3,361)
Total	197,798	119	135	197,782	158,071

	2019			2018
	Amounts reported under HKFRS 16 (A) <i>HK\$'000</i>	Estimated amounts related to operating leases as if under HKAS 17 (B) <i>HK\$'000</i>	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) <i>HK\$'000</i>	Compared to amounts reported for 2018 under HKAS 17 <i>HK\$'000</i>
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	157,593	(1,424)	156,169	141,793
Net cash generated from operating activities	144,012	(1,424)	142,588	141,793
Capital element of lease rentals paid	(1,278)	1,278	–	–
Interest element of lease rentals paid	(146)	146	–	–
Net cash generated from/(used in) financing activities	95,691	1,424	97,115	(90,832)

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are construction, operation and management of Sui-Yue Expressway (Hunan Section) (the “Expressway”) and distribution of Kweichow Moutai Chiew products in the PRC. Further details regarding the Group’s principal activities are disclosed in note 4(b).

Disaggregation of revenue from contracts with customers by each significant category is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Toll income	192,419	202,059
– Sales of liquor and spirits	264,567	2,397
	456,986	204,456

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) Segment reporting

The Group manages its businesses by business lines. 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 presented the following two reportable segments:

- the Expressway, construction, operation and management of an expressway;
- Liquor and spirits, distribution of Kweichow Moutai Chiew products.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associate, deferred tax assets and other corporate assets. Segment liabilities include accruals, bills payable and lease liabilities attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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.

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 years ended 31 December 2019 and 2018 is set out below.

	For the year ended 31 December 2019		
	the Expressway	Liquor and spirits	Total (Note)
	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition			
Point in time	<u>192,419</u>	<u>264,567</u>	<u>456,986</u>
Revenue from external customers	<u>192,419</u>	<u>264,567</u>	<u>456,986</u>
Reportable segment revenue	<u><u>192,419</u></u>	<u><u>264,567</u></u>	<u><u>456,986</u></u>
Reportable segment profit (adjusted EBITDA)	<u><u>147,410</u></u>	<u><u>50,388</u></u>	<u><u>197,798</u></u>
Interest income from bank deposits	262	113	375
Interest expense	(61,747)	(24)	(61,771)
Depreciation and amortisation for the year	(33,250)	(140)	(33,390)
As at 31 Dec 2019			
Reportable segment assets	1,500,913	187,214	1,688,127
Reportable segment liabilities	1,260,644	47,744	1,308,388

	For the year ended 31 December 2018		
	the Expressway <i>HK\$'000</i>	Liquor and spirits <i>HK\$'000</i>	Total (<i>Note</i>) <i>HK\$'000</i>
Disaggregated by timing of revenue recognition			
Point in time	202,059	2,397	204,456
Revenue from external customers	202,059	2,397	204,456
Reportable segment revenue	202,059	2,397	204,456
Reportable segment profit (adjusted EBITDA)	161,432	(3,361)	158,071
Interest income from bank deposits	100	1	101
Interest expense	(55,248)	–	(55,248)
Depreciation and amortisation for the year	(51,129)	–	(51,129)
As at 31 Dec 2018			
Reportable segment assets	1,527,570	30,067	1,557,637
Reportable segment liabilities	1,320,470	30,856	1,351,326

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

(ii) Reconciliations of reportable segment profit or loss, assets and liabilities

	2019 <i>HK\$'000</i>	2018 <i>(Note)</i> <i>HK\$'000</i>
Profit		
Reportable segment profit (adjusted EBITDA)	<u>197,798</u>	<u>158,071</u>
Reportable segment profit derived from Group's external customers	197,798	158,071
Other revenue	1,412	1
Other net (loss)/income	(3,647)	2,309
Depreciation and amortisation	(34,514)	(51,129)
Finance costs	(54,594)	(55,248)
Unallocated head office and corporate expenses	<u>(10,046)</u>	<u>(6,968)</u>
Consolidated profit before taxation	<u><u>96,409</u></u>	<u><u>47,036</u></u>
	2019 <i>HK\$'000</i>	2018 <i>(Note)</i> <i>HK\$'000</i>
Assets		
Reportable segment assets	1,688,127	1,557,637
Elimination of inter-segment receivables	<u>(1,077)</u>	<u>(1,101)</u>
	1,687,050	1,556,536
Unallocated head office and corporate assets	<u>76,282</u>	<u>392,209</u>
Consolidated total assets	<u><u>1,763,332</u></u>	<u><u>1,948,745</u></u>
	2019 <i>HK\$'000</i>	2018 <i>(Note)</i> <i>HK\$'000</i>
Liabilities		
Reportable segment liabilities	1,308,388	1,351,326
Elimination of inter-segment payables	<u>(171,605)</u>	<u>(1,729)</u>
	1,136,783	1,349,597
Unallocated head office and corporate liabilities	<u>108,842</u>	<u>106,452</u>
Consolidated total liabilities	<u><u>1,245,625</u></u>	<u><u>1,456,049</u></u>

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

5. OTHER REVENUE AND NET INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other revenue		
Billboard rental income	363	576
Interest income from bank deposits	1,788	102
	<u>2,151</u>	<u>678</u>
Other net (loss)/income		
Net foreign exchange (loss)/gain	(3,680)	2,304
Loss on disposal of non-current assets	(3,267)	–
Others	491	775
	<u>(6,456)</u>	<u>3,079</u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on bank loan and other borrowing	54,448	55,248
Interest on lease liabilities	146	–
	<u>54,594</u>	<u>55,248</u>

There is no borrowing costs capitalised for the year ended 31 December 2019 (2018: Nil).

(b) Staff costs

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Salaries, wages and other benefits	31,517	20,700
Contributions to defined contribution retirement plans	5,484	3,662
Share-based payment expenses	2,355	–
	<u>39,356</u>	<u>24,362</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**

	2019	2018
	HK\$’000	HK\$’000
Auditors’ remuneration		
– Audit and review services	2,792	2,716
– Other services	450	340
Depreciation	4,372	2,573
Amortisation	30,142	48,556
Total minimum lease payments for lease previously classified as operating leases under HKAS 17	–	1,497

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

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

	2019	2018
	HK\$’000	HK\$’000
Current tax – PRC corporate income tax	13,581	–
Deferred tax – Reversal and origination of temporary differences	14,203	(39,633)
	27,784	(39,633)

- (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 2019 and 2018.
- (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% (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.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before taxation	<u>96,409</u>	<u>47,036</u>
Notional tax on profit before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	26,061	12,645
Tax effect on tax losses not recognised	1,244	403
Tax effect on deductible temporary differences	1,657	–
Tax effect of non-deductible expenses	431	194
Tax effect on temporary differences not recognised in previous years	–	(46,325)
Use of tax losses carried from previous years	<u>(1,609)</u>	<u>(6,550)</u>
Income tax	<u>27,784</u>	<u>(39,633)</u>

8. EARNINGS PER SHARE

(a) **Basic earnings per share**

	2019 <i>'000</i>	2018 <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\$50,420,000 (2018: HK\$76,580,000) and the weighted average number of 412,608,000 (2018: 412,608,000) shares in issue during the year.

(b) **Diluted earnings per share**

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

9. PREPAYMENTS AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Prepayments	14,004	16,963
Other receivables	41,920	26,604
	<u>55,924</u>	<u>43,567</u>

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

10. ACCRUALS AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Construction payables	34,939	65,866
Suspense receipts	15,612	27,043
Accruals	20,554	14,060
Tax payable	11,285	667
Interest payable	4,780	1,403
Other payable	3,520	4,913
	<u>90,690</u>	<u>113,952</u>

Included in accruals and other payables as at 31 December 2019 are construction fees payables of HK\$34,939,000 (2018: HK\$65,866,000) and tax payable of HK\$11,285,000 (2018: HK\$667,000). 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 contribution of liquor and spirits trading business, total revenue of the Group increased substantially during the year ended 31 December 2019 of about HK\$457.0 million. The Group reported a profit for the year of about HK\$68.6 million.

TURNOVER

For the year ended 31 December 2019, the Group recorded a turnover of approximately HK\$457.0 million, increased by 123.5% from that for the year ended 31 December 2018 of approximately HK\$204.5 million. Total amount of toll fee revenue of Sui-Yue Expressway (Hunan Section) (“the Expressway”) was about HK\$192.4 million, decreased by 4.8% from about HK\$202.1 million for the year ended 31 December 2018. Sales of liquor and spirits were about HK\$264.6 million for the year ended 31 December 2019.

For the Expressway, average traffic volume was about 930,000 vehicles per month, increased by 20.2% from about 774,000 vehicles per month for the year ended 31 December 2018. During the year, continuous improvement in the highway network system within the districts surrounding the Expressway induced significant traffic volume to the Expressway. On the other hand, the tightened control measure on overloaded trucks during the year 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 passing through the Expressway. Average toll per vehicle decreased by about 20.6% from about HK\$21.8 per vehicle for the year ended 31 December 2018 to about HK\$17.3 per vehicle for the year ended 31 December 2019. Since more passenger cars were induced to our Expressway, the portion of trucks traffic, which has a higher toll rate, decreased from about 44.3% for the year ended 31 December 2018 to about 39.6% for the year ended 31 December 2019.

The sales of liquor and spirits business commenced in the final quarter of 2018, total revenue of which was about HK\$264.6 million for the year ended 31 December 2019, compared to about HK\$2.4 million for the year ended 31 December 2018. Most of the revenue was generated from the sales of Huamaojiu under the sole distributorship agreement with Kweichow Moutai Group. For the year ended 31 December 2019, the Group achieved the sales of over 340 tonnes Huamaojiu and the average selling price was about HK\$675,000 per tonne.

COST AND GROSS PROFIT

The Group had a gross profit of about HK\$219.2 million for the year ended 31 December 2019, increased by 70.0% from about HK\$129.0 million for the year ended 31 December 2018. The increase in gross profit was mainly contributed by the growth of liquor and spirits trading business during the year.

The gross profit ratio was about 48.0% for the year ended 31 December 2019, decreased by 23.8% from about 63.1% for the year ended 31 December 2018. For the Expressway, the cost of sales was about HK\$62.4 million and the gross profit ratio was about 67.6% for the year ended 31 December 2019. The gross profit ratio slightly increased from 63.1% for the year ended 31 December 2018 was mainly 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\$175.4 million and its gross profit ratio was about 33.7% for the year ended 31 December 2019.

OTHER REVENUE AND OTHER NET INCOME/(LOSS)

The Group recorded other revenue of approximately HK\$2.2 million and HK\$0.7 million for the year ended 31 December 2019 and 2018 respectively. In addition, the other net loss were about HK\$6.5 million for the year ended 31 December 2019 and the other net income were HK\$3.1 million for the year ended 31 December 2018. Other revenue of the Group were mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net loss mainly represented the exchange loss and the loss from the disposal of non-current assets recorded during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2019 were approximately HK\$43.3 million, increased by 58.5% from approximately HK\$27.3 million for the year ended 31 December 2018. The increase was mainly because of commencement of the new liquor and spirits trading business.

SELLING AND DISTRIBUTION COSTS

The Group recorded about HK\$20.8 million selling and distribution costs, including, advertising fee and staff salary for the year ended 31 December 2019. The amount was mainly used for the liquor and spirits trading business.

FINANCIAL COSTS

For the year ended 31 December 2019, the finance costs of the Group were about HK\$54.6 million, decreased by 1.2% from approximately HK\$55.2 million for the year ended 31 December 2018. The decrease was mainly due to the partial repayment of the existing bank loan during the year.

INCOME TAX

Income tax charges for the year ended 31 December 2019 were about HK\$27.8 million while the income tax benefits were about HK\$39.6 million for the year ended 31 December 2018. During the year, there was no provision for the income tax has been made for Hong Kong profits tax. The Group had no assessable profits subject to Hong Kong profits tax during the year ended 31 December 2019. For the PRC corporate income tax, the Group's current tax charge was about HK\$13.6 million for the year ended 31 December 2019. 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. The deferred tax charges for the year ended 31 December 2019 were about HK\$14.2 million while the deferred tax benefits was about HK\$39.6 million for the year ended 31 December 2018. The income tax benefits were mainly arose from the tax effect on temporary differences not recognised in previous year. These temporary differences were 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 contribution from the liquor and spirits trading business, the Group recorded profit before taxation of about HK\$96.4 million, increased by 105.0% from about HK\$47.0 million for the year ended 31 December 2018. The Group recorded a profit for the year of approximately HK\$68.6 million for the year ended 31 December 2019 compared to approximately HK\$86.7million for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2019, the Group financed its operations and capital expenditures by internal resources of the Company, borrowings from the controlling shareholder of the Company, the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd. and long term bank loan. As at 31 December 2019, total bank loan drawn by the Group amounted to about HK\$915.4 million (2018: approximately HK\$1,015.8 million), borrowing from the non-controlling shareholder of a subsidiary was HK\$108.5 million (2018: Nil), the amount due to the controlling shareholder of the Company was about HK\$102.0 million (2018: HK\$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$234.9 million (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 31 December 2019, total banking facilities of the Group amounted to approximately HK\$915.4 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 borrowings to total equity was 1.98 (2018: 2.06).

As at 31 December 2019, the bank loan and other borrowings were repayable as follows:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year or on demand	89,304	79,891
After 1 year but within 2 years	100,467	91,304
After 2 years but within 5 years	465,686	342,390
After 5 years	368,379	502,172
	<u>1,023,836</u>	<u>1,015,757</u>

The Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2019, 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.

INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The service concession arrangement represents the right of the Group to operate the Expressway and receive toll fees therefrom. According to the accounting policy adopted by the Group, the amount of the intangible asset is subject to the periodical impairment review. To facilitate the review, an independent valuation was performed by an independent valuer, Ernst & Young Transactions Limited, to determine the value in use of the cash generating unit as at 31 December 2019. No further impairment was recognised for the year ended 31 December 2019.

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 2019, 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 2019, the bank loan of HK\$915.4 million from China Merchants Bank was secured by the pledge of the toll collection right in relation to the Expressway.

CAPITAL COMMITMENTS

As at 31 December 2019, there was no material capital commitment outstanding for the Company.

BUSINESS REVIEW

Sui-Yue Expressway (Hunan Section)

Due to the improvement in the highway network system in the districts surrounding the Expressway, there was a significant increase in the traffic flow in the Expressway during the year ended 31 December 2019, from about 774,000 vehicles per month for year ended 31 December 2018 to about 930,000 vehicles per month. 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 volume to the Expressway for the year. 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 44.3% for the year ended 31 December 2018 to about 39.6% for the year ended 31 December 2019. In addition, with the implementation of tightened control measure on overloaded trucks in the Expressway, the average toll per vehicle for the year ended 31 December 2019 was about HK\$17.3, decreased by 20.6% from the year ended 31 December 2018 of about HK\$21.8. As a result, the total toll revenue decreased by about 4.8% to approximately HK\$192.4 million for the year ended 31 December 2019.

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 benefits and contributions to the Group and the shareholders of the Company in different aspects. 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.

Toll fees exemption during the control and prevention period of the Novel Coronavirus infection

On 15 February 2020, the Ministry of Transport (“MOT”) of the PRC issued the Notice from the Ministry of Transport in relation to the Toll Fees Exemption for Vehicles on Tolled Highways During the Control and Prevention Period of the Novel Coronavirus Infection (Jiao Gong Lu Ming Dian [2020] No. 62) (《交通運輸部關於新冠肺炎疫情防控期間免收收費公路車輛通行費的通知》(交公路明電[2020] 62號)). According to this notice, the State Council of the PRC permitted a nationwide toll-free policy for all vehicles using tolled highways (the “Policy”) with effect from 0:00 a.m. on 17 February 2020 until further notice to be announced by the PRC Government. The Policy applied to all tolled highways including tolled bridges and tunnels approved and established in accordance with the Highway Law of the PRC (《中華人民共和國公路法》) and the Regulation on Management of Tolled Highways (《收費公路管理條例》). In accordance with the Policy, the Company has waived the toll fees of vehicles using the Expressway from the specified time until further notice from the government authorities.

As of the date of this announcement, the business operations (including the construction, maintenance, operation and management of the Expressway) of the Group continued as usual during the implementation period of the Policy. The Group will strive to strengthen its cooperation with the relevant government authorities to facilitate the smooth traffic and transportation of materials conducive to infection control and prevention using the Expressway and to contribute towards the health and safety of the public.

Trading of Liquor and Spirits

Given the Group's good relationship with the Kweichow Moutai Group, both parties 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 of 2018. 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 year ended 31 December 2019, the Group appointed about 70 distributors throughout the country and the achieved sales were about HK\$264.6million.

Employees and emoluments

As at 31 December 2019, the Group had a total of 276 (2018: 285) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2019, the Group's total expenses on the remuneration of employees were approximately HK\$39.4 million (2018: HK\$24.4 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), the contribution retirement benefit 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 2019.

The share option scheme which adopted on 30 November 2009 was expired on 29 November 2019. A new share option scheme is proposed to be adopted in the coming Annual General Meeting.

PROSPECTS

With the outbreak of the novel coronavirus infection, the Group is now facing a historical challenge in our business. From 17 February 2020, the entire toll fee was exempted for the Expressway and subject to the period of the implementation of the Policy, it will adversely affect our revenue in 2020. For the liquor and spirits trading business, the control and prevention measures slowed down our sales since the outbreak of COVID-19. The management of the Group strongly believed that with the effective control and preventive measures done by PRC Government, the difficult period will be over and the business will back to normal in the coming future.

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 was 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 year ended 31 December 2019. 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 sales 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 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 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 businesses 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 entire issued share capital ("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 2019.

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 Shares for the year ended 31 December 2019.

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 2019, 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 2019.

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 2019. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2019 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 2019.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 11 June 2020. 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 8 June 2020 to 11 June 2020 (both days inclusive), during such period no transfer of 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 5 June 2020.

PUBLICATION OF 2019 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 2019 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, 27 March 2020

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.