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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

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK\$186.4 million, representing a decrease of approximately 7.8% over the corresponding period of last year.
- Gross profit for the Period was approximately HK\$60.6 million, representing a decrease of approximately 36.7% over the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$9.2 million, representing a decrease of approximately 62.9% over the corresponding period of last year.
- Basic and diluted earnings per share for the Period amounted to HK\$2.22 cents, representing a decrease of approximately 62.9% 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 2020 (the “Period”), together with the comparative figures for the corresponding period in 2019. 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 2020 – unaudited

	Note	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	3	186,397	202,080
Cost of sales		<u>(125,784)</u>	<u>(106,326)</u>
Gross profit		60,613	95,754
Other revenue		1,244	1,323
Other net (loss)/income		(4,726)	1,246
Administrative expenses		(16,607)	(20,020)
Selling and distribution costs		<u>(4,884)</u>	<u>(7,844)</u>
Profit from operations		35,640	70,459
Finance costs	4(a)	(25,007)	(27,978)
Share of profit or loss of associates		833	–
Profit before taxation	4	11,466	42,481
Income tax	5	(5,319)	(11,597)
Profit for the period		<u>6,147</u>	<u>30,884</u>
Attributable to:			
Equity shareholders of the Company		9,168	24,700
Non-controlling interests		<u>(3,021)</u>	<u>6,184</u>
Profit for the period		<u>6,147</u>	<u>30,884</u>
Earnings per share (HK Cents)			
Basic and diluted	6	<u>2.22</u>	<u>5.99</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	6,147	30,884
Other comprehensive income for the period:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	<u>(4,621)</u>	<u>(2,784)</u>
Total comprehensive income for the period	<u>1,526</u>	<u>28,100</u>
Attributable to:		
Equity shareholders of the Company	5,225	22,356
Non-controlling interests	<u>(3,699)</u>	<u>5,744</u>
Total comprehensive income for the period	<u>1,526</u>	<u>28,100</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

		At 30 June 2020	At 31 December 2019 (audited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		17,637	19,042
Intangible asset – service concession arrangement		1,198,703	1,236,431
Interests in associates		11,168	2,423
Deferred tax assets		141,578	140,387
		<u>1,369,086</u>	<u>1,398,283</u>
Current assets			
Inventories		36,432	63,880
Prepayments and other receivables	7	112,783	55,924
Amounts due from related parties		4,730	10,382
Cash and cash equivalents		177,732	234,863
		<u>331,677</u>	<u>365,049</u>
Current liabilities			
Accruals and other payables	8	64,344	90,690
Contract liabilities		11,096	25,287
Amounts due to related companies		436	758
Bank loan and other borrowings		93,058	89,304
Lease liabilities		1,414	1,291
		<u>170,348</u>	<u>207,330</u>
Net current assets		<u>161,329</u>	<u>157,719</u>
Total assets less current liabilities		<u>1,530,415</u>	<u>1,556,002</u>

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 (audited) <i>HK\$'000</i>
Non-current liabilities		
Bank loan and other borrowings	911,059	934,532
Amount due to the controlling shareholder of the Company	101,976	101,976
Lease liabilities	1,415	1,787
	<u>1,014,450</u>	<u>1,038,295</u>
NET ASSETS	<u>515,965</u>	<u>517,707</u>
CAPITAL AND RESERVES		
Share capital	4,126	4,126
Reserves	406,025	404,676
Total equity attributable to equity shareholders of the Company	410,151	408,802
Non-controlling interests	105,814	108,905
TOTAL EQUITY	<u>515,965</u>	<u>517,707</u>

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 21 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include 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 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

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

The financial information relating to the financial year ended 31 December 2019 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 2019 are available from the Company's registered office. In the auditors' report dated 27 March 2020, the auditors expressed an unqualified opinion on those financial statements.

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 group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, Definition of a Business
- Amendment to HKFRS 16, COVID-19-Related Rent Concessions

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.

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 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	
	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Toll income	39,503	94,985
– Sales of liquor and spirits	146,894	107,095
	<u>186,397</u>	<u>202,080</u>

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.

For the six months ended 30 June	The Expressway		Liquor and spirits		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Reportable segment revenue	<u>39,503</u>	<u>94,985</u>	<u>146,894</u>	<u>107,095</u>	<u>186,397</u>	<u>202,080</u>
Interest income from bank deposits	(108)	(133)	(290)	(51)	(398)	(184)
Interest expenses	24,938	31,245	23	–	24,961	31,245
Depreciation and amortisation	16,299	19,038	238	13	16,537	19,051
Reportable segment profit (adjusted EBITDA)	<u>25,870</u>	<u>72,576</u>	<u>35,733</u>	<u>19,796</u>	<u>61,603</u>	<u>92,372</u>
As at 30 June/31 December						
Reportable segment assets	<u>1,446,059</u>	<u>1,500,913</u>	<u>192,960</u>	<u>187,214</u>	<u>1,639,019</u>	<u>1,688,127</u>
Reportable segment liabilities	<u>1,222,127</u>	<u>1,260,644</u>	<u>29,494</u>	<u>47,744</u>	<u>1,251,621</u>	<u>1,308,388</u>

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	
	2020	2019
	HK\$’000	HK\$’000
Reportable segment profit (adjusted EBITDA)	61,603	92,372
Reportable segment profit derived from the Group’s external customers and associates	61,603	92,372
Other revenue	663	902
Other net (loss)/income	(4,958)	1,160
Depreciation and amortisation	(17,099)	(19,707)
Finance costs	(25,007)	(27,978)
Unallocated head office and corporate expenses	(3,736)	(4,268)
Consolidated profit before taxation	11,466	42,481

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	HK\$’000	HK\$’000
(a) Finance costs:		
Interest on bank loan and other borrowings	24,938	27,905
Interest on lease liabilities	69	73
	25,007	27,978
(b) Staff costs:		
Salaries, wages and other benefits	10,582	14,545
Contributions to defined contribution retirement plans	1,436	6,576
	12,018	21,121
(c) Other items:		
Depreciation charge		
– owned property, plant and equipment	2,523	1,501
– right-of-use assets	579	656
Amortisation	13,997	17,550
Operating lease	461	163

5 INCOME TAX

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – PRC corporate income tax	9,237	4,495
Deferred tax – Origination and reversal of temporary differences	(3,918)	7,102
	<u>5,319</u>	<u>11,597</u>

- (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 2020 and 2019.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC corporate income tax at a rate of 25% (six months ended 30 June 2019: 25%) on their 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.

6 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\$9,168,000 (six months ended 30 June 2019: HK\$24,700,000) and the weighted average number of 412,608,000 (six months ended 30 June 2019: 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 2020 and 2019, therefore, diluted earnings per share is equivalent to basic earnings per share.

7 PREPAYMENTS AND OTHER RECEIVABLES

	At	At
	30 June	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	78,216	14,004
Other receivables	34,567	41,920
	<u>112,783</u>	<u>55,924</u>

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

8 ACCRUALS AND OTHER PAYABLES

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Construction payables	31,791	34,939
Suspense receipts	3,555	15,612
Accruals	11,514	20,554
Tax payables	12,702	11,285
Interest payables	2,105	4,780
Other payables	2,677	3,520
	<hr/> 64,344 <hr/>	<hr/> 90,690 <hr/>

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 interim dividend for the Period (six months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Period, the Group recorded revenue of approximately HK\$186.4 million, decreased by about 7.8% from approximately HK\$202.1 million for the corresponding period of last year. The decrease was mainly due to the toll fee exemption during the control and prevention period of the novel coronavirus infection during the Period.

The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$39.5 million, decreased by 58.4% from about HK\$95.0 million of the corresponding period in 2019. 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 Tolloed 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 tolloed highways from 17 February to 5 May 2020. In accordance with this policy, the Company had waived the toll fees of vehicles using the Expressway during this period. Starting 6 May 2020, collection of the toll fees from vehicles was resumed and the traffic flow recovered significantly in the past few months. In June 2020, the traffic flow of the Expressway was about 963,000 vehicles, which is 3.5% higher than the average monthly traffic flow of 2019.

The revenue from the sales of liquor and spirits was approximately HK\$146.9 million for the Period, increased by 37.2 % from about HK\$107.1 million of the corresponding period in 2019, but decreased by 6.7% from about HK\$157.5 million of the second half year of 2019. The lockdown of the PRC cities during the COVID-19 pandemic period discouraged the consumption of liquor and spirits in social gathering and business entertainment, especially from February to April this year. But with the reopening of economic activities from May 2020, the sales of liquor and spirits recovered significantly in the last two months of the Period.

Cost and gross profit

The Group had a gross profit of approximately HK\$60.6 million for the Period, decreased by 36.7% from about HK\$95.8 million for the corresponding period of last year. The decrease in gross profit was mainly due to the toll fee exemption policy during the COVID-19 pandemic period.

The gross profit ratio was about 32.5%, decreased by 31.4% from the corresponding period of last year of about 47.4%. For the Expressway, the segment gross profit was approximately HK\$15.2 million and the gross profit ratio was about 38.6% for the Period. Owing to the effect of the COVID-19 pandemic, the gross profit ratio significantly decreased from 66.6% of the corresponding period of last year. For the trading of liquor and spirits, the segment gross profit was about HK\$45.4 million and its gross profit ratio was about 30.9% for the Period, which is nearly the same as that of the corresponding period of last year.

Other revenue and other net (loss)/income

The Group recorded other revenue of approximately HK\$1.2 million for the Period and HK\$1.3 million for the corresponding period of last year. Other revenue of the Group mainly referred to the rental income from the billboard along the Expressway and interest income from bank deposits. In addition, the other net loss was about HK\$4.7 million for the Period. Other net loss mainly represented the exchange loss recorded during the Period.

Administrative expenses

Administrative expenses for the Period were approximately HK\$16.6 million, decreased by 17.0% from approximately HK\$20.0 million for the corresponding period of last year. The decrease was mainly due to the cost saving scheme in the staff cost during the COVID-19 pandemic period.

Selling and distribution costs

The Group recorded about HK\$4.9 million selling and distribution costs for the Period, decreased by 37.7% from approximately HK\$7.8 million for the corresponding period of last year. It mainly represented the advertising fees and staff salaries for the liquor and spirits trading business. The decrease was mainly due to the low economic activities during the COVID-19 pandemic period.

Finance costs

During the Period, the finance costs of the Group were about HK\$25.0 million, decreased by about 10.6% from approximately HK\$28.0 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\$6.1 million, decreased significantly by 80.1% from approximately HK\$30.9 million for the corresponding period of last year. The decrease in the profit was mainly due to the toll fee exemption policy and the limited economic activities during the COVID-19 pandemic period.

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 2020, total bank loan drawn by the Group amounted to about HK\$897.7 million (as at 31 December 2019: approximately HK\$915.4 million), the borrowing from the non-controlling shareholder of a subsidiary was approximately HK\$106.4 million (as at 31 December 2019: approximately HK\$108.5 million), the amount due to the controlling shareholder of the Company was approximately HK\$102.0 million (as at 31 December 2019: approximately HK\$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$177.7 million (as at 31 December 2019: approximately HK\$234.9 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 its daily operation and any demands for capital in future development. As at 30 June 2020, total banking facilities of the Group amounted to approximately HK\$897.7 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 1.95 (as at 31 December 2019: 1.98).

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 (the "Management") 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 Period.

Employees and emoluments

As at 30 June 2020, the Group employed a total of 250 (as at 31 December 2019: 276) employees in the PRC and Hong Kong, which included the management staffs, engineers, technicians and general staffs. During the Period, the Group's total expenses on the remuneration of employees were approximately HK\$12.0 million (six months ended 30 June 2019: approximately HK\$21.1 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 2020, 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 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 2020, the bank loan of approximately HK\$897.7 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 of the highway network system in the districts surrounding the Expressway, there was a significant increase in the traffic flow in the Expressway during the past few years, especially the newly induced traffic flow from Hang-Rui Expressway (Hunan Section) “杭瑞高速(湖南段)” and Yue-Wang Expressway “岳望高速”. However, the COVID-19 pandemic happened since February 2020 seriously affected the performance of the operation of the Expressway. The toll fee exemption policy from February to May 2020 and the limited economic activities during the period adversely affected both of the traffic flow and the toll fee revenue. In May 2020, following the ease of restrictions and the reopening of economy in the PRC, the traffic flow of the Expressway gradually resumed. In addition, starting 6 May 2020, the Expressway resumed the collection of the toll fees. In June, the total traffic flow and the toll revenue were about 963,000 vehicles and RMB13.9 million respectively.

TOLL FEES EXEMPTION DURING THE CONTROL AND PREVENTION PERIOD OF THE NOVEL CORONAVIRUS INFECTION

On 15 February and 28 April 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 Tolloed 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)) and the Resumption of the Collection of Toll Fees on Tolloed Highways (Jiao Gong Lu Ming Dian [2020] No. 150) (《交通運輸部關於恢復收費公路收費的通知》(交公路明電[2020] 150號)) respectively. According to these notices, the State Council of the PRC permitted a nationwide toll-free policy for all vehicles using tolloed highways (the “Policy”) with effect from 17 February to 5 May 2020. The Policy applied to all tolloed highways including tolloed 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 Tolloed Highways (《收費公路管理條例》). In accordance with the Policy, the Company had waived the toll fees of vehicles using the Expressway during the specified period.

TRADING OF LIQUOR AND SPIRITS

The Group commenced its trading business of liquor and spirits from 2018 and achieved a good result in 2019. During the Period, the sales dropped significantly owing to the lock-down policy in the PRC triggered by the COVID-19 pandemic. Despite the temporary restrictions in social gathering and business entertainment discouraged the consumption of liquor and spirits during the Period, the Group kept actively communicating with the suppliers to secure a stable supply after the pandemic. The Group also organised online trainings with the distributors and started to advertise the products on online media during the outbreak of pandemic. With the ease of restrictions and reopening of the economy in the PRC from May, the demand and consumption of liquor and spirits resumed rapidly. The Group recorded a total revenue of HK\$146.9 million, which was similar to that of the sales in the second half of 2019.

PROSPECTS

With the outbreak of the COVID-19 pandemic in the PRC, the Group faced a historical challenge in its business. From 17 February to 5 May 2020, the entire toll fee was exempted for the Expressway and it adversely affected its revenue during the Period. For the liquor and spirits trading business, the control and prevention measures slowed down its sales since the outbreak of COVID-19 pandemic. From May 2020, with the ease of restrictions and reopening of the economy in the PRC, the difficult period was over and the business was back to normal. The traffic flow and the toll revenue of the Expressway resumed to the level before the pandemic period. The business of trading liquor and spirits recovered significantly, too. The Management is full of confidence about the performance of the Group in the post COVID-19 pandemic period.

With the experience of the directors of the Company (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, it 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.

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 during 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 throughout 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 2020 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, 21 August 2020

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.