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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 2022

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK\$380.8 million, representing a decrease of approximately 39.0% over the corresponding period of last year.
- Gross profit for the Period was approximately HK\$157.3 million, representing a decrease of approximately 33.7% over the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$44.3 million, representing a decrease of approximately 57.0% over the corresponding period of last year.
- Basic and diluted earnings per share for the Period amounted to HK10.75 cents, representing a decrease of approximately 57.0% 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 2022 (the “Period”), together with the comparative figures for the corresponding period in 2021. 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 2022 – unaudited

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Revenue	3	380,838	624,314
Cost of sales		<u>(223,538)</u>	<u>(387,127)</u>
Gross profit		157,300	237,187
Other revenue		3,417	3,339
Other net (loss)/income		(1,630)	2,157
Administrative expenses		(28,336)	(29,750)
Selling and distribution costs		(12,196)	(8,316)
Profit from operations		118,555	204,617
Finance costs	4(a)	(28,678)	(28,176)
Share of profit of associates		5,413	10,556
Profit before taxation	4	95,290	186,997
Income tax	5	(24,231)	(48,348)
Profit for the period		<u>71,059</u>	<u>138,649</u>
Attributable to:			
Equity shareholders of the Company		44,335	103,134
Non-controlling interests		26,724	35,515
Profit for the period		<u>71,059</u>	<u>138,649</u>
Earnings per share (cents)	6		
Basic		<u>10.75</u>	<u>25.00</u>
Diluted		<u>10.75</u>	<u>25.00</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 – unaudited

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit for the period	71,059	138,649
Other comprehensive income for the period:		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	<u>(42,622)</u>	<u>9,002</u>
Total comprehensive income for the period	<u>28,437</u>	<u>147,651</u>
Attributable to:		
Equity shareholders of the Company	11,378	109,762
Non-controlling interests	<u>17,059</u>	<u>37,889</u>
Total comprehensive income for the period	<u>28,437</u>	<u>147,651</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 – unaudited

		At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		30,598	36,264
Intangible assets – service concession arrangements		1,376,772	1,470,824
Interests in associates	7	117,148	41,665
Deferred tax assets		128,861	139,452
		<u>1,653,379</u>	<u>1,688,205</u>
Current assets			
Inventories		139,114	100,004
Other current assets		9,027	1,641
Trade and other receivables	8	128,282	174,875
Amounts due from related parties		21,063	36,397
Cash and cash equivalents		278,691	332,574
		<u>576,177</u>	<u>645,491</u>
Current liabilities			
Accruals and other payables	9	44,079	95,902
Amounts due to related parties		5,532	4,278
Contract liabilities		30,502	30,953
Bank loans and other borrowing		152,009	134,541
Lease liabilities		1,787	1,796
Current taxation		5,140	10,331
		<u>239,049</u>	<u>277,801</u>
Net current assets		<u>337,128</u>	<u>367,690</u>
Total assets less current liabilities		<u>1,990,507</u>	<u>2,055,895</u>

	At 30 June 2022	At 31 December 2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Bank loan and other borrowing	979,784	1,073,788
Amount due to the controlling shareholder of the Company	101,976	101,976
Lease liabilities	1,024	1,851
	<u>1,082,784</u>	<u>1,177,615</u>
NET ASSETS	<u>907,723</u>	<u>878,280</u>
CAPITAL AND RESERVES		
Share capital	4,126	4,126
Reserves	584,646	572,672
	<u>588,772</u>	<u>576,798</u>
Total equity attributable to equity shareholders of the Company	<u>588,772</u>	<u>576,798</u>
Non-controlling interests	<u>318,951</u>	<u>301,482</u>
TOTAL EQUITY	<u>907,723</u>	<u>878,280</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 26 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 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 2021 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

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 HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geographical location. 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 three reportable segments:

- Sui-Yue Expressway, construction, operation and management of the Sui-Yue Expressway;
- Qing Ping Expressway, construction, operation and management of the Qing Ping Expressway;
- Liquor and spirits, mainly distribution of Huamaojiu and Xijiushaofang.

(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	
	2022	2021
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Toll income	141,977	160,688
– Sales of liquor and spirits	238,861	463,626
	<u>380,838</u>	<u>624,314</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) **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 deferred tax assets and other corporate assets. Segment liabilities include accruals, bills payable and lease liabilities attributable to the expressways operations 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 "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 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 period is set out below.

For the six months ended 30 June 2022	Sui-Yue Expressway <i>HK\$'000</i>	Qing Ping Expressway <i>HK\$'000</i>	Liquor and spirits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue	102,891	39,086	238,861	380,838
Reportable segment profit (adjusted EBITDA)	87,437	14,135	62,362	163,934
Interest income from bank deposits	684	68	777	1,529
Interest expenses	(27,320)	–	(1,327)	(28,647)
Depreciation and amortisation	(21,368)	(10,258)	(1,654)	(33,280)
As at 30 June				
Reportable segment assets	1,318,174	206,414	542,181	2,066,769
Reportable segment liabilities	1,096,948	12,216	127,057	1,236,221
For the six months ended 30 June 2021	Sui-Yue Expressway <i>HK\$'000</i>	Qing Ping Expressway <i>HK\$'000</i>	Liquor and spirits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue	108,566	52,122	463,626	624,314
Reportable segment profit (adjusted EBITDA)	92,975	32,996	121,680	247,651
Interest income from bank deposits	745	120	554	1,419
Interest expenses	(27,014)	(1,086)	(57)	(28,157)
Depreciation and amortisation	(24,568)	(13,061)	(911)	(38,540)
As at 31 December 2021				
Reportable segment assets	1,421,082	222,798	500,139	2,144,019
Reportable segment liabilities	1,225,306	22,602	108,657	1,356,565

(c) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment profit (adjusted EBITDA)	<u>163,934</u>	<u>247,651</u>
Other revenue	555	973
Other net (loss)/income	(2,540)	1,179
Depreciation and amortisation	(33,755)	(39,102)
Finance costs	(28,678)	(28,176)
Unallocated head office and corporate expenses	<u>(4,226)</u>	<u>4,472</u>
Consolidated profit before taxation	<u><u>95,290</u></u>	<u><u>186,997</u></u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Finance costs:		
Interest on bank loans and other borrowing	28,599	28,101
Interest on lease liabilities	<u>79</u>	<u>75</u>
	<u><u>28,678</u></u>	<u><u>28,176</u></u>
(b) Staff costs:		
Salaries, wages and other benefits	27,742	25,697
Contributions to defined contribution retirement plans	2,515	2,034
Share-based payment expenses	<u>774</u>	<u>771</u>
	<u><u>31,031</u></u>	<u><u>28,502</u></u>
(c) Other items:		
Depreciation charge		
– owned property, plant and equipment	3,562	2,630
– right-of-use assets	964	917
Amortisation	<u>29,229</u>	<u>35,555</u>

5 INCOME TAX

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax – PRC corporate income tax	19,642	40,736
Deferred tax – Origination and reversal of temporary differences	4,589	7,612
	<u>24,231</u>	<u>48,348</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 2022 and 2021.
- (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 2021: 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\$44,335,000 (six months ended 30 June 2021: HK\$103,134,000) and the weighted average number of 412,608,000 (six months ended 30 June 2021: 412,608,000) shares in issue during the interim period.

(b) Diluted earnings per share

For the six months ended 30 June 2022, the effect of share options of the Group was anti-dilutive. There were no dilutive potential ordinary shares for the six months ended 30 June 2021.

7 Interests in associates

During the Period, the Group altogether acquired 30% equity interests in Guizhou Renhuai Huayu Wine Co., Ltd. (“Guizhou Renhuai”) at a total consideration of RMB25,000 (equivalent to HK\$28,300). Guizhou Renhuai will be engaged in manufacturing liquor and spirits. The registered capital of Guizhou Renhuai is RMB500,000,000 (equivalent to HK\$584,650,000) and none of it has been paid up at the date of acquisition. The Group is required to pay up the registered capital to Guizhou Renhuai in accordance with the percentage of its equity interests in Guizhou Renhuai by 1 January 2050. Up to 30 June 2022, the Group has injected RMB61,600,000 (equivalent to HK\$72,029,000) to Guizhou Renhuai.

8 TRADE AND OTHER RECEIVABLES

	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Trade receivables	10,744	7,424
Prepayments	90,803	139,891
Other receivables	26,735	27,560
	<u>128,282</u>	<u>174,875</u>

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

As at 30 June 2022 and 31 December 2021, all trade receivables, based on the invoice date, are aged within three months.

9 ACCRUALS AND OTHER PAYABLES

	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Construction payables	16,749	51,562
Receipts in advance	–	501
Payroll and other staff benefits payable	3,823	10,526
VAT and surcharges	1,924	8,302
Interest payable	1,478	1,546
Other payables	20,105	23,465
	<u>44,079</u>	<u>95,902</u>

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

10 Contingent liabilities

In 2021, four individuals (“Plaintiffs”) had collectively initiated legal proceedings against Hunan Daoyue Expressway Industry Co., Ltd. (“Daoyue”), a subsidiary of the Group, for disputes in respect of construction contract. Although Daoyue received a judgment from the court which was in favour of the Plaintiffs, the Group had appealed and the case was remitted for retrial during the Period.

Up to the date of this announcement, the case is currently at its initial stage of the retrial and no verdicts were concluded. If the Company is found to be liable, the total expected monetary compensation may amount to approximately RMB6,772,000 (equivalent to HK\$7,919,000) plus the related finance costs and court fees. Based on the opinion from legal advisor, management considers that there are significant uncertainties in the final result of the case and the compensation is not probable. Accordingly, no provision is made in the interim financial report for the Period.

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the Period (six months ended 30 June 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Period, the Group recorded a revenue of approximately HK\$380.8 million, decreased by about 39.0% from approximately HK\$624.3 million for the corresponding period of last year. The decrease was mainly due to the economic downturn brought by the outbreak of the COVID-19 pandemic in the PRC during the Period and an increase in the price of petroleum.

The total toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Sui-Yue Expressway”) and the First Phase of Qing Ping Expressway (the “Qing Ping Expressway”, collectively the “Expressways”) for the Period was about HK\$142.0 million, decreased by 11.6% from about HK\$160.7 million for the corresponding period of 2021. For the Sui-Yue Expressway, the toll revenue and the traffic flow were about HK\$102.9 million and 6.0 million vehicles respectively for the Period, decreased by about 5.2% and 6.3% from the corresponding period of 2021. On the other hand, the toll revenue and the traffic flow of the Qing Ping Expressway were about HK\$39.1 million and 9.9 million vehicles respectively, decreased by about 25.0% and 24.3% from the corresponding period of 2021.

The revenue generated from the sales of liquor and spirits was approximately HK\$238.9 million for the Period, decreased by 48.5% from about HK\$463.6 million for the corresponding period of 2021. Due to the occasional outbreak of the COVID-19 pandemic, the sales of liquor and spirits plunged in the Period.

Cost and gross profit

The Group recorded a gross profit of approximately HK\$157.3 million for the Period, decreased by 33.7% from about HK\$237.2 million for the corresponding period of last year. The decrease in gross profit was in line with the drop in the total revenue of the Group for the Period. The relevant gross profit ratio was about 41.3%, increased by 3.3% for the corresponding period of last year from about 38.0%.

For the Expressways, the segment gross profit was approximately HK\$79.4 million and the gross profit ratio was about 55.9% for the Period. Due to the drop in the toll revenue, the relevant gross profit ratio slightly decreased over the corresponding period of last year.

For the trading of liquor and spirits, the segment gross profit was about HK\$77.9 million and the gross profit ratio was about 32.6% for the Period, representing a slight increase over the corresponding period of last year.

Other revenue and other net (loss)/income

The Group recorded other revenue of approximately HK\$3.4 million for the Period, as compared to an amount of approximately HK\$3.3 million for the corresponding period of last year. Other revenue of the Group mainly comprised of the rental income from the highway billboard advertising business and interest income from bank deposits.

In addition, the other net loss was about HK\$1.6 million for the Period. Other net loss mainly reflected the exchange loss recorded during the Period.

Administrative expenses

Administrative expenses for the Period were approximately HK\$28.3 million, decreased by 4.7% from approximately HK\$29.7 million for the corresponding period of last year. The decrease was mainly due to the decrease in professional services fees which incurred for the acquisition in 2021.

Selling and distribution costs

The Group recorded selling and distribution costs of about HK\$12.2 million for the Period, increased by 47.0% from approximately HK\$8.3 million for the corresponding period of last year. The selling and distribution costs mainly comprised of the advertising expenses and staff costs for the liquor and spirits trading business.

Finance costs

During the Period, the finance costs of the Group amounted to about HK\$28.7 million, increased by about 1.8% from approximately HK\$28.2 million for the corresponding period of last year.

Profit for the Period

The profit of the Group for the Period amounted to approximately HK\$71.1 million, decreased by about 48.7% from approximately HK\$138.7 million for the corresponding period of last year. The slump in profit was in line with the decrease in the total revenue of the Group for the Period.

Liquidity and financial resources

During the Period, the Group financed its operating and capital expenditures with its internal resources, borrowings from the controlling shareholder of the Company and long-term bank loans. As at 30 June 2022, total bank loans drawn by the Group amounted to about HK\$1,131.8 million (as at 31 December 2021: approximately HK\$1,208.3 million), the amount due to the controlling shareholder of the Company amounted to approximately HK\$102.0 million (as at 31 December 2021: approximately HK\$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$278.7 million (as at 31 December 2021: approximately HK\$332.6 million).

The Group has always pursued a prudent treasury management policy and maintained its liquidity position with sufficient standby banking facilities to meet its daily operation and any demands for capital in the future development. As at 30 June 2022, the total banking facilities of the Group with the banks in the PRC amounted to approximately HK\$1,131.8 million, which were mainly for the settlement of construction costs of the Expressways. The ratio of total outstanding bank loans and other borrowings to total equity was 1.25 (as at 31 December 2021: 1.38).

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 the interest rate risk. Any substantial fluctuation of the interest rate may cause negative financial impacts on the Group. The management of the Company (the "Management") will continue to monitor the Group's interest rate risk exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Intangible assets – service concession arrangements

The service concession arrangements confer the right of the Group to operate the Expressways and receive toll fees therefrom. According to the accounting policy adopted by the Group, the amount of the intangible assets 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 2021. No further impairment was recognised for the Period.

Employees and emoluments

As at 30 June 2022, the Group employed a total of 438 (as at 31 December 2021: 480) employees in the PRC and Hong Kong, which included the Management, engineers, technicians and general staff. During the Period, the Group's total expenses on the remuneration of employees amounted to approximately HK\$31.0 million (six months ended 30 June 2021: approximately HK\$28.5 million).

The Group's emolument policies are formulated based on the performance of individual employees and are subject to a periodical review. Apart from the provident fund scheme (pursuant 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 their individual performance.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Some of the Group's cash and bank deposits are denominated in Hong Kong dollars. As at 30 June 2022, the Group had not entered into any hedging arrangements to hedge against exposure in the foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause negative 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 2022, the bank loans of approximately HK\$1,073.3 million provided by banks in the PRC were secured by a pledge of the toll collection right owned by the Sui-Yue Expressway.

BUSINESS REVIEW

SUI-YUE EXPRESSWAY

Despite the occasional COVID-19 outbreak and the lock down policy, the operation of Sui-Yue Expressway was slightly affected during the Period. Average traffic flow for the Period was about 1.0 million vehicles per month, decreased from 1.1 million vehicles per month for the corresponding period of last year. The average toll for the Period was about HK\$17.2 per vehicle, slightly increased by 1.2% from HK\$17.0 per vehicle for the corresponding period of last year.

QING PING EXPRESSWAY

The COVID-19 pandemic and the lock down policy in Shenzhen during the Period seriously affected the operation of the Qing Ping Expressway. In addition to the recent increase in the price of petroleum, the motivation for the driving trips dropped significantly. For the Period, the total toll revenue of Qing Ping Expressway was about HK\$39.1 million, decreased by approximately 25.0% from about HK\$52.1 million for the corresponding period of last year. The average traffic flow was about 1.7 million vehicles per month, decreased by about 22.7% from about 2.2 million vehicles per month for the corresponding period of last year. Average toll for the Period was about HK\$3.9 per vehicle.

TRADING OF LIQUOR AND SPIRITS

The COVID-19 pandemic also adversely affected the business of liquor and spirits during the Period. With the lock down policy and the restrictions in the social activities, the consumption of alcoholic beverages dropped significantly during the Period. The Group recorded a revenue of trading of liquor and spirits of approximately HK\$238.9 million, decreased by approximately 48.5% from that for the corresponding period of last year. During the Period, active marketing campaigns and promotions were organised to strengthen the marketing network and the efficiency distribution channel. Segment profit, the adjusted EBITDA, for the Period was about HK\$62.4 million.

PROSPECTS

Due to the occasional and regional outbreak of the COVID-19 pandemic in the PRC and the significant increase in the petroleum price, the result of the Group was seriously affected during the Period. Yet, with the strong and effective measures in the prevention and controls over the spread of the virus, the effects from the pandemic will reduce to minimal in the future. The Management believes that the difficult period will be over and the businesses of the Group will return to normal in the foreseeable future.

Although the toll revenue of the Expressways dropped by approximately 11.6% because of the external economic factors during the Period, the fundamentals of them remain in good shape and fast recovery will be expected in the future. Once there is recovery and growth in the economic activities along the Expressways, the business of the Expressways is prosperous. Sui-Yue Expressway, a section of one major inter-provincial expressway, is mainly providing service to trucks and lorries. Qing Ping Expressway is located in Shenzhen, one of the major cities in the PRC, its economic prospects are promising. The Group believes that the Expressways are the cornerstone of the Group and will provide a stable cashflow to the Group in future.

The business of trading liquor and spirits was affected significantly during the Period. But, with the well-established distribution network, the Group is full of confidence about the performance of this business segment in the post COVID-19 pandemic period. In the near future, we will continue to take steps to boost the sales and marketing activities, such as the tasting events and promotion conference in the coming months.

With the experience of the Directors in successfully completing various 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 the said strategies, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, the Group 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 (the "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 2022 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, 26 August 2022

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