

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2022

The board of directors (the “Board”) 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 2022, together with comparative figures for the year ended 31 December 2021 (restated) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000 (restated) (Note 13)
Continuing operations			
Revenue	4	409,886	688,452
Cost of sales		(290,201)	(480,024)
Gross profit		119,685	208,428
Other revenue	5	3,367	3,920
Other net (loss)/income	5	(2,687)	2,369
Administrative expenses		(38,667)	(72,367)
Selling and distribution costs		(15,872)	(25,801)
Profit from operations		65,826	116,549
Finance costs	6(a)	(1,533)	(2,676)
Share of profits less losses of associates		4,203	14,172
Profit before taxation	6	68,496	128,045
Income tax	7	(19,297)	(42,960)
Profit from continuing operations		49,199	85,085
Discontinued operation			
Profit from discontinued Sui-Yue Expressway operation, net of tax	8	37,715	49,219
Profit for the year		86,914	134,304

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000 (restated) (Note 13)
Profit attributable to:			
Equity shareholders of the Company			
– continuing operations		26,399	55,925
– discontinued Sui-Yue Expressway operation		22,629	30,501
		<u>49,028</u>	<u>86,426</u>
Non-controlling interests			
– continuing operations		22,800	29,160
– discontinued Sui-Yue Expressway operation		15,086	18,718
		<u>37,886</u>	<u>47,878</u>
Profit for the year		<u>86,914</u>	<u>134,304</u>
Basic earnings per share (RMB Cents)			
	9		
– continuing operations		6.40	13.56
– discontinued Sui-Yue Expressway operation		5.48	7.39
		<u>11.88</u>	<u>20.95</u>
Diluted earnings per share (RMB Cents)			
	9		
– continuing operations		6.40	13.56
– discontinued Sui-Yue Expressway operation		5.48	7.39
		<u>11.88</u>	<u>20.95</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated) (Note 13)
Profit for the year	86,914	134,304
Other comprehensive income for the year:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of entities comprising the Group not using Renminbi as functional currency	<u>(3,444)</u>	<u>(106)</u>
Total comprehensive income for the year	<u>83,470</u>	<u>134,198</u>
Attributable to:		
Equity shareholders of the Company		
– continuing operations	<u>22,955</u>	55,819
– discontinued Sui-Yue Expressway operation	<u>22,629</u>	<u>30,501</u>
	<u>45,584</u>	<u>86,320</u>
Non-controlling interests		
– continuing operations	<u>22,800</u>	29,160
– discontinued Sui-Yue Expressway operation	<u>15,086</u>	<u>18,718</u>
	<u>37,886</u>	<u>47,878</u>
Total comprehensive income for the year	<u>83,470</u>	<u>134,198</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2022

		31 December 2022	31 December 2021	1 January 2021
	<i>Note</i>	RMB'000	RMB'000 (restated) <i>(Note 13)</i>	RMB'000 (restated) <i>(Note 13)</i>
Non-current assets				
Property, plant and equipment		7,094	29,649	16,263
Intangible asset – service concession arrangement		115,091	1,202,538	1,260,325
Interests in associates	<i>10</i>	125,883	34,065	18,623
Deferred tax assets		1,382	114,015	122,362
		249,450	1,380,267	1,417,573
Current assets				
Inventories		159,933	81,763	79,528
Other current assets		12,261	1,342	388
Trade and other receivables	<i>11</i>	55,478	142,976	30,771
Amounts due from related parties		21,214	29,758	48,739
Cash and cash equivalents		205,659	271,911	207,494
Assets of the disposal group held for sale	<i>8</i>	1,251,957	–	–
		1,706,502	527,750	366,920
Current liabilities				
Accruals and other payables	<i>12</i>	24,694	78,409	73,049
Amounts due to related parties		4,086	3,498	8,407
Contract liabilities		37,936	25,307	5,547
Bank loans and other borrowing		50,000	110,000	130,000
Lease liabilities		1,387	1,468	1,082
Current taxation		1,983	8,447	4,357
Amount due to the controlling shareholder of the Company		91,091	–	–
Liabilities directly associated with the disposal group held for sale	<i>8</i>	941,482	–	–
		1,152,659	227,129	222,442
Net current assets		553,843	300,621	144,478
Total assets less current liabilities		803,293	1,680,888	1,562,051

	31 December 2022	31 December 2021	1 January 2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(restated)	(restated)
		<i>(Note 13)</i>	<i>(Note 13)</i>
Non-current liabilities			
Bank loans and other borrowing	–	877,924	787,169
Amount due to the controlling shareholder of the Company	–	83,375	85,825
Lease liabilities	263	1,513	797
	<u>263</u>	<u>962,812</u>	<u>873,791</u>
NET ASSETS	<u>803,030</u>	<u>718,076</u>	<u>688,260</u>
CAPITAL AND RESERVES			
Share capital	3,634	3,634	3,634
Reserves	514,534	467,953	514,381
	<u>518,168</u>	<u>471,587</u>	<u>518,015</u>
Total equity attributable to equity shareholders of the Company	518,168	471,587	518,015
Non-controlling interests	284,862	246,489	170,245
	<u>284,862</u>	<u>246,489</u>	<u>170,245</u>
TOTAL EQUITY	<u>803,030</u>	<u>718,076</u>	<u>688,260</u>

NOTES

(Expressed in Renminbi 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 expressways 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. Significant accounting policies adopted by the Group are disclosed below.

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 2022 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that non-current assets and disposal group classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell.

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.

3. CHANGES IN ACCOUNTING POLICIES

(a) Overview of new and amended standards adopted by the Group

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

None of the developments has 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 financial report.

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.

(b) Change in presentation currency

In prior years, the Group's consolidated financial statements were presented in Hong Kong dollars ("HKD"). During the year, having considered that the functional currency of the principal subsidiaries is Renminbi ("RMB") and in view of the recent fluctuation of the exchange rate of RMB against HKD, the Company considers that changing the presentation currency from HKD to RMB would help to eliminate fluctuation on the reported results caused by exchange rate fluctuation which does not have any direct relationship to the Group's financial performance. This will enable the shareholders of the Company to understand the actual financial performance of the Group better.

In view of the above, the Company has decided to adopt RMB as the presentation currency for the consolidated financial statements of the Group effective for the year ended 31 December 2022. On the basis that the functional currency of the companies comprising the Group remains unchanged, the change of the presentation currency and restatement of the comparative figure from HKD to RMB are not expected to give rise to any material impact on foreign exchange gain or losses.

The change in presentation currency has been applied retrospectively as a change in accounting policy under HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In representing the comparative figures from HKD to RMB, items in the consolidated statement of financial position were translated using the applicable closing rate as of each reporting dates and items in the consolidated statement of profit or loss were translated using appropriate average rates that approximated to actual rates for each reporting period. Share capital, share premium and reserves were translated at the exchange rate prevailing at the date when the respective amounts were determined (i.e. historical exchange rates).

The combined effect of change in presentation currency of the Group and the proposed disposal of Daoyue as set out in note 8 to the comparative figures of the consolidated statement of profit or loss, and the effect of change in presentation currency of the Group to comparative figures of certain categories of consolidated statement of financial position, is set out in note 13 to these consolidated financial statements.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the trading of liquor and spirits and construction, operation and management of the First Phase of Qing Ping Expressway (the “Qing Ping Expressway”), and Sui-Yue Expressway (Hunan Section) (the “Sui-Yue Expressway”, collectively the “Expressways”) in Mainland China. 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
Continuing operations:		
– Toll income	68,806	88,884
– Sales of liquor and spirits	341,080	599,568
	<u>409,886</u>	<u>688,452</u>
Discontinued Sui-Yue Expressway operation:		
– Toll income	176,844	180,516
	<u>586,730</u>	<u>868,968</u>

Since the Group’s revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is Mainland China. 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 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.

Continuing reportable segments:

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

Discontinued reportable segment:

- Sui-Yue Expressway, construction, operation and management of the Sui-Yue Expressway.

(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 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 years ended 31 December 2022 and 2021 (restated) is set out below.

	For the year ended 31 December 2022				
	Continuing operations			Discontinued operation	Total RMB'000
	Qing Ping Expressway RMB'000	Liquor and spirits RMB'000	Subtotal RMB'000	Sui-Yue Expressway RMB'000	
Reportable segment revenue	<u>68,806</u>	<u>341,080</u>	<u>409,886</u>	<u>176,844</u>	<u>586,730</u>
Reportable segment profit (adjusted EBITDA)	<u>25,163</u>	<u>78,237</u>	<u>103,400</u>	<u>136,187</u>	<u>239,587</u>
Interest income from bank deposits	110	1,331	1,441	804	2,245
Interest expense	–	(1,486)	(1,486)	(43,139)	(44,625)
Depreciation and amortisation for the year	(17,914)	(2,277)	(20,191)	(42,853)	(63,044)
As at 31 December 2022					
Reportable segment assets	181,041	501,075	682,116	1,139,782	1,821,898
Reportable segment liabilities	11,425	127,532	138,957	938,867	1,077,824
	For the year ended 31 December 2021 (restated)				
	Continuing operations			Discontinued operation	Total RMB'000
	Qing Ping Expressway RMB'000	Liquor and spirits RMB'000	Subtotal RMB'000	Sui-Yue Expressway RMB'000	
Reportable segment revenue	<u>88,884</u>	<u>599,568</u>	<u>688,452</u>	<u>180,516</u>	<u>868,968</u>
Reportable segment profit (adjusted EBITDA)	<u>45,633</u>	<u>128,368</u>	<u>174,001</u>	<u>148,105</u>	<u>322,106</u>
Interest income from bank deposits	325	1,272	1,597	726	2,323
Interest expense	(1,816)	(841)	(2,657)	(46,631)	(49,288)
Depreciation and amortisation for the year	(24,392)	(1,861)	(26,253)	(36,997)	(63,250)
As at 31 December 2021					
Reportable segment assets	182,159	408,911	591,070	1,161,869	1,752,939
Reportable segment liabilities	18,479	88,836	107,315	1,001,804	1,109,119

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Revenue		
Reportable segment revenue	586,730	868,968
Less: segment revenue from discontinued Sui-Yue Expressway operation	<u>(176,844)</u>	<u>(180,516)</u>
Consolidated revenue (<i>note 4(a)</i>)	<u><u>409,886</u></u>	<u><u>688,452</u></u>
Profit		
Reportable segment profit (adjusted EBITDA)	239,587	322,106
Less: segment profit from discontinued Sui-Yue Expressway operation	<u>(136,187)</u>	<u>(148,105)</u>
Reportable segment profit from continuing operations	103,400	174,001
Other revenue	787	1,238
Other net (loss)/income	(3,890)	2,022
Depreciation and amortisation	(20,191)	(26,253)
Finance costs	(1,486)	(2,657)
Unallocated head office and corporate expenses	<u>(10,124)</u>	<u>(20,306)</u>
Consolidated profit before taxation	<u><u>68,496</u></u>	<u><u>128,045</u></u>
Assets		
Reportable segment assets	1,821,898	1,752,939
Elimination of inter-segment receivables	<u>(25,695)</u>	<u>(15,860)</u>
	1,796,203	1,737,079
Deferred tax assets	113,557	114,015
Unallocated head office and corporate assets	<u>46,192</u>	<u>56,923</u>
Consolidated total assets	<u><u>1,955,952</u></u>	<u><u>1,908,017</u></u>
Liabilities		
Reportable segment liabilities	1,077,824	1,109,119
Elimination of inter-segment payables	<u>(25,695)</u>	<u>(16,390)</u>
	1,052,129	1,092,729
Current taxation	4,598	8,447
Unallocated head office and corporate liabilities	<u>96,195</u>	<u>88,765</u>
Consolidated total liabilities	<u><u>1,152,922</u></u>	<u><u>1,189,941</u></u>

5. OTHER REVENUE AND NET (LOSS)/INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Other revenue		
<i>Continuing operations:</i>		
Billboard rental income	1,139	1,085
Interest income from bank deposits	2,228	2,835
	<u>3,367</u>	<u>3,920</u>
<i>Discontinued Sui-Yue Expressway operation:</i>		
Billboard rental income	394	466
Interest income from bank deposits	804	726
	<u>1,198</u>	<u>1,192</u>
	<u>4,565</u>	<u>5,112</u>
Other net (loss)/income		
<i>Continuing operations:</i>		
Net foreign exchange (loss)/gain	(3,890)	2,022
Loss on disposal of property, plant and equipment	(432)	(160)
Others	1,635	507
	<u>(2,687)</u>	<u>2,369</u>
<i>Discontinued Sui-Yue Expressway operation:</i>		
Compensation for litigation (<i>note 8(c)(ii)</i>)	(9,000)	–
Net foreign exchange (loss)/gain	(131)	42
Others	473	2,359
	<u>(8,658)</u>	<u>2,401</u>
	<u>(11,345)</u>	<u>4,770</u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Continuing operations:		
Interest on bank loans and other borrowing	1,416	2,562
Interest on lease liabilities	117	114
	<u>1,533</u>	<u>2,676</u>
Discontinued Sui-Yue Expressway operation:		
Interest on bank loans and other borrowing	<u>43,139</u>	<u>46,631</u>
	<u>44,672</u>	<u>49,307</u>

(b) Staff costs

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Continuing operations:		
Salaries, wages and other benefits	34,571	34,375
Contributions to defined contribution retirement plans	2,506	2,112
Share-based payment expenses	1,296	33,056
	<u>38,373</u>	<u>69,543</u>
Discontinued Sui-Yue Expressway operation:		
Salaries, wages and other benefits	13,559	15,798
Contributions to defined contribution retirement plans	1,765	1,475
Share-based payment expenses	–	1,718
	<u>15,324</u>	<u>18,991</u>
	<u>53,697</u>	<u>88,534</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.

There is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

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**

	2022 RMB’000	2021 <i>RMB’000</i> (restated)
Continuing operations		
Depreciation charge		
– owned property, plant and equipment	1,910	1,313
– right-of-use assets	1,550	1,477
Amortisation		
– Qingping Expressway	17,753	22,630
Discontinued Sui-Yue Expressway operation		
Depreciation charge		
– owned property, plant and equipment	3,348	3,448
Amortisation		
– Sui-Yue Expressway	39,505	35,157

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Continuing operations		
Current tax – PRC Corporate Income tax		
– Provision for the year	19,859	44,200
– (Over)/under-provision in respect of prior years	(497)	55
	<u>19,362</u>	<u>44,255</u>
Deferred tax		
– Origination and reversal of temporary differences	(65)	(1,295)
	<u>19,297</u>	<u>42,960</u>
Discontinued Sui-Yue Expressway operation		
Current tax – PRC corporate income tax		
– Provision for the year	11,717	6,342
– Under-provision in respect of prior years	1,044	–
	<u>12,761</u>	<u>6,342</u>
Deferred tax		
– Origination and reversal of temporary differences	523	9,642
	<u>13,284</u>	<u>15,984</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 years ended 31 December 2022 and 2021.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in Mainland China are subject to PRC corporate income tax at a rate of 25% (2021: 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.
- (iv) The PRC CIT Law and its implementation rules impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividends distributed by PRC-resident enterprises to their non-PRC-resident corporate investors for profits earned since 1 January 2008. Under the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident is entitled to a reduced withholding tax rate of 5% if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise directly.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Continuing operations		
Profit before tax from continuing operations	<u>68,496</u>	<u>128,045</u>
Notional tax on profit before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	19,624	36,479
Tax effect on unused tax losses not recognised	1,598	469
Tax effect on deductible temporary differences	(469)	1,153
Tax effect of non-deductible expenses	604	6,737
Tax effect of non-taxable income	(1,563)	(3,821)
Use of tax losses carried from previous years	–	(623)
(Over)/under-provision in respect of prior years	(497)	55
PRC withholding tax	–	2,511
Income tax	<u>19,297</u>	<u>42,960</u>
Discontinued Sui-Yue Expressway operation		
Profit before taxation form discontinued Sui-Yue Expressway operation	<u>50,999</u>	<u>65,203</u>
Notional tax on profit before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	12,750	16,301
Tax effect of non-deductible expenses	158	289
Under-provision in respect of prior years	1,044	–
Others	(668)	(606)
Income tax	<u>13,284</u>	<u>15,984</u>

8. DISCONTINUED SUI-YUE EXPRESSWAY OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 1 December 2022, the Group entered into a sale and purchase agreement with NWS (Guangdong) Investment Company Limited (“NWS”), a minority shareholder which owned 40% equity interest of Hunan Daoyue Expressway Industry Co., Ltd. (湖南道岳高速公路實業有限公司, “Daoyue”), a non-wholly subsidiary of the Group in which the Group has 60% equity interest. Pursuant to the sale and purchase agreement, the Group agreed to sell its entire equity interests in Daoyue to NWS at an initial consideration of RMB555,700,000, subject to the terms and conditions in the sale and purchase agreement (“the Disposal”). Accordingly, the assets and liabilities of Daoyue are presented as disposal group held for sale.

The Sui-Yue Expressway segment owned and operated by Daoyue was not previously classified as held-for-sale or a discontinued Sui-Yue Expressway operation. The comparative consolidated statement of profit or loss has been re-presented to show the discontinued Sui-Yue Expressway operation separately from continuing operations.

(a) **Results of discontinued Sui-Yue Expressway operation**

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i> (restated)
Discontinued Sui-Yue Expressway operation			
Revenue	4	176,844	180,516
Cost of sales		<u>(61,019)</u>	<u>(57,274)</u>
Gross profit		115,825	123,242
Other revenue	5	1,198	1,192
Other net (loss)/income	5	(8,658)	2,401
Administrative expenses		<u>(14,227)</u>	<u>(15,001)</u>
Profit from operations		94,138	111,834
Finance costs	6(a)	<u>(43,139)</u>	<u>(46,631)</u>
Profit before taxation	6	50,999	65,203
Income tax	7	<u>(13,284)</u>	<u>(15,984)</u>
Profit for the year		<u>37,715</u>	<u>49,219</u>

(b) **Cash flows of discontinued Sui-Yue Expressway operation**

	2022 RMB'000	2021 <i>RMB'000</i> (restated)
Net cash generated from operating activities	131,065	141,020
Net cash used in investing activities	(19,026)	(10,794)
Net cash used in financing activities	<u>(123,021)</u>	<u>(131,716)</u>
Net cash flow for the year	<u>(10,982)</u>	<u>(1,490)</u>

(c) **Assets and liabilities included in disposal group held for sale**

Considering that the disposal group's fair value less costs to sell assessed by management as at 31 December 2022 were higher than its carrying amount, the assets and liabilities held for sale were measured at their carrying amounts. As at 31 December 2022, the disposal group comprised the following assets and liabilities after inter-company elimination:

	<i>Note</i>	<i>RMB'000</i>
Assets		
Property, plant and equipment		16,287
Intangible asset – service concession arrangement		1,062,711
Deferred tax assets		112,175
Trade and other receivables		6,369
Cash and cash equivalents		54,415
		<hr/>
Assets of disposal group held for sale		<u>1,251,957</u>
Liabilities		
Accruals and other payables	<i>(i)</i>	51,752
Provisions	<i>(ii)</i>	9,000
Amounts due to related parties		191
Bank loans	<i>(iii)</i>	877,924
Current taxation		2,615
		<hr/>
Liabilities directly associated with the disposal group held for sale		<u>941,482</u>

- (i) Due to a dispute on the use of land occupied by Sui-Yue Expressway in Yunxi District of Yueyang City by certain barriers of the toll booths and a service area of Sui-Yue Expressway, the relevant authorities of Yueyang City issued penalty notices against Daoyue in August 2020 and September 2020. Daoyue holds the concession rights of the Sui-Yue Expressway. Pursuant to the penalty notices, Daoyue was required to vacate and remove the structures built on the land and was liable to pay an aggregate penalty of approximately RMB428,000. In the prior year, Daoyue had fully settled the penalty but had not recovered nor returned the land to the relevant municipals considering the normal operation of the gas station within the service area, and the relevant government authority has not enforced the demolition. As the dispute was still in the midst of negotiations with the relevant government authority in the prior year, there was no resolution or an agreed settlement mechanism. It was determined that no reliable estimate can be made on both the outcome and the amount in supplementing and completing relevant land use and title registration procedure. Accordingly, no accrual was recognised in prior year.

In October 2022, Daoyue has reached a preliminary agreement with the relevant government authority that Daoyue will supplement and complete relevant land use and title registration procedures. The land-transferring fees, valuation fees and other fees for obtaining of the title registration certificates of the land was estimated by the relevant government authority to be approximately RMB33,361,000. Accordingly, an accrual of RMB33,361,000 were recognised at the time of the preliminary agreement was reached. A corresponding intangible asset of same amount were recognised at the same time while the amortisation of the intangible asset was accumulated from the time of land occupation using a unit of usage basis according to the accounting policy of the Group.

- (ii) In 2021, four individuals (“Plaintiffs”) had collectively initiated legal proceedings in against Daoyue, for disputes in respect of construction contracts. The Group had appealed after Daoyue received a judgement from the court which was in favour of the Plaintiffs and the case was remitted for retrial. In September 2022, the court affirmed the judgment while Daoyue had appealed again and no verdicts were concluded up to the date of this report. Management considered that the retrial upheld the original judgment and the related legal compensation is probable, hence the provisions of RMB9,000,000 had been made based on the expected monetary compensation plus the related finance costs and court fees.
- (iii) The loans are secured by the rights to operate the Sui-Yue Expressway and receive toll fees therefrom owned by Daoyue. As at 31 December 2022, none of the covenants relating to the loan has been breached.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

(i) Profit attributable to ordinary shareholders (basic)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
From continuing operations	26,399	55,925
From discontinued Sui-Yue Expressway operation	<u>22,629</u>	<u>30,501</u>
Profit attributable to ordinary shareholders	<u><u>49,028</u></u>	<u><u>86,426</u></u>

(ii) Weighted-average number of ordinary shares (basic)

	2022 <i>'000</i>	2021 <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><u>412,608</u></u>	<u><u>412,608</u></u>

(b) Diluted earnings per share

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(i) Profit attributable to ordinary shareholders (diluted)

	2022 RMB'000	2021 <i>RMB'000</i> (restated)
From continuing operations	26,399	55,925
From discontinued Sui-Yue Expressway operation	22,629	30,501
	<hr/>	<hr/>
Profit attributable to ordinary shareholders	49,028	86,426
	<hr/> <hr/>	<hr/> <hr/>

(ii) Weighted-average number of ordinary shares (diluted)

	2022 '000	2021 <i>'000</i>
Weighted-average number of ordinary shares at 31 December	412,608	412,608
Effect of deemed issue of shares under the Company's share option scheme	–	56
	<hr/>	<hr/>
Weighted-average number of ordinary shares (diluted) at 31 December	412,608	412,664
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2022, the effect of share options of the Group was anti-dilutive. There were no dilutive potential ordinary shares, therefore, diluted earnings per share is equivalent to basic earnings per share.

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

10. INTERESTS IN ASSOCIATES

During the year ended 31 December 2022, the Group altogether acquired 30% equity interests in Guizhou Renhuai Huayu Wine Co., Ltd. ("Guizhou Renhuai"), a material associate of the Group, at a total consideration of RMB25,000. The Group is required to pay up the registered capital of RMB150,000,000 to Guizhou Renhuai in accordance with the percentage of its equity interests in Guizhou Renhuai by 1 January 2050.

Up to 31 December 2022, the Group has injected RMB86,600,000 to Guizhou Renhuai. The other shareholders of Guizhou Renhuai will make up the shortfall of capital in accordance with their proportion of equity interests in Guizhou Renhuai.

11. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Trade receivables (<i>note (i)</i>)	1,007	6,069
Prepayments (<i>note (ii)</i>)	47,886	114,375
Other receivables	6,585	22,532
	<u>55,478</u>	<u>142,976</u>

- (i) Trade receivables represent toll revenue receivables from toll road operation. At 31 December 2022, all of trade receivables are aged within one month and the settlement period of the toll revenue receivables is normally within a month due to the implementation of unified toll collection policy on the expressway.

There was no recent history of default in respect of the Group's debtors. Since the debtors are local government authorities and government agencies in Mainland China and based on past experience, management believes that no impairment allowance is necessary in respect of the trade receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable. No impairment loss was recognised by the Group at 31 December 2022 (2021: Nil).

- (ii) The balance as at 31 December 2022 mainly represented prepayment to suppliers of liquor and spirits business.

12. ACCRUALS AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Construction payables	5,537	42,156
Receipts in advance	–	410
Payroll and other staff benefits payable	7,544	8,606
VAT and surcharges	1,175	6,788
Interest payable	–	1,264
Other payables	10,438	19,185
	<u>24,694</u>	<u>78,409</u>

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

13. COMPARATIVE FIGURES

As set out in note 3(b), the Group has changed the presentation currency of these financial statements from HKD to RMB. The comparative information has been restated retrospectively due to such change.

In addition, as set out in note 8, as a result of the proposed disposal of Daoyue, the comparative amounts in the consolidated statement of profit or loss have been restated as if the operations had been discontinued at the beginning of the comparative period. Certain comparative amounts in segment report as set out in note 4(b) have also been restated accordingly.

The combined effect of the change in presentation currency and the proposed disposal of Daoyue to the consolidated statement of profit or loss for the year ended 31 December 2021 is set out below:

	As previously reported <i>HKD'000</i>	Translated to RMB* <i>RMB'000</i> <i>(note 3(b))</i>	Reclassification to discontinued Sui-Yue Expressway operation <i>RMB'000</i> <i>(note 8)</i>	As restated <i>RMB'000</i>
Continuing operations				
Revenue	1,047,888	868,988	(180,516)	688,452
Cost of sales	(647,927)	(537,298)	57,274	(480,024)
Gross profit	399,961	331,670	(123,242)	208,428
Other revenue	6,164	5,112	(1,192)	3,920
Other net income	5,752	4,770	(2,401)	2,369
Administrative expenses	(105,355)	(87,368)	15,001	(72,367)
Selling and distribution costs	(31,113)	(25,801)	–	(25,801)
Profit from operations	275,409	228,383	(111,834)	116,549
Finance costs	(59,459)	(49,307)	46,631	(2,676)
Share of profits less losses of associates	17,090	14,172	–	14,172
Profit before taxation	233,040	193,248	(65,203)	128,045
Income tax	(71,082)	(58,944)	15,984	(42,960)
Profit from continuing operations	161,958	134,304	(49,219)	85,085
Discontinued Sui-Yue Expressway operations				
Profit from discontinued Sui-Yue Expressway operation, net of tax	–	–	49,219	49,219
Profit for the year	161,958	134,304	–	134,304

* the consolidated statement of profit or loss for the year ended 31 December 2021 is translated at the average exchange rate of RMB1:HKD1.2059 in 2021.

The effect of the change in presentation currency to certain categories of the consolidated statement of financial position as at 31 December 2021 and 1 January 2021 is set out below:

	31 December 2021		1 January 2021	
	As previously reported <i>HKD'000</i>	As restated** <i>RMB'000</i>	As previously reported <i>HKD'000</i>	As restated** <i>RMB'000</i>
Non-current assets	1,688,205	1,380,267	1,684,360	1,417,573
Current assets	645,491	527,750	435,974	366,920
Current liabilities	(277,801)	(227,129)	(264,306)	(222,442)
Non-current liabilities	(1,177,615)	(962,812)	(1,038,238)	(873,791)
Net assets	878,280	718,076	817,790	688,260

** the consolidated statement of financial position as at 31 December 2021 and 1 January 2021 are translated at the closing exchange rate of RMB1:HKD1.2231 and RMB1:HKD1.1882 as at 31 December 2021 and 1 January 2021 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the occasional and regional outbreak of the COVID-19 pandemic in the PRC and the significant increase in the petroleum price during the year of 2022, the result of the Group was seriously affected. For the year ended 31 December 2022, total revenue of the Group decreased to about RMB409.9 million and the profit for the year was about RMB86.9 million.

CHANGE OF PRESENTATION CURRENCY

The consolidated financial statements of the Group had been presented in HKD. Having considered that most of the Group's transactions and business activities are settled in RMB and conducted in Mainland China and in view of the recent fluctuation of the exchange rate of RMB against HKD, the Company considers that changing the presentation currency from HKD to RMB would help to eliminate fluctuation on the reported results caused by exchange rate fluctuation which does not have any direct relationship to the Group's financial performance. The Company considers that it is more appropriate to use RMB as the Group's presentation currency for its consolidated financial statements and this will enable the shareholders of the Company to better understand the actual financial performance of the Group.

The Group had changed its presentation currency from HKD to RMB for the presentation of its financial statements for the year ended 31 December 2022. The change of presentation currency will be applied retrospectively. The comparative figures for the year ended 31 December 2021 have been restated in RMB in this report.

DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 1 December 2022, the Group entered into a sale and purchase agreement with NWS (Guangdong) Investment Company Limited ("NWS"), a minority shareholder which owned 40% of the equity interest of Hunan Daoyue Expressway Industry Co., Ltd. (湖南道岳高速公路實業有限公司, "Daoyue"), a non wholly-owned subsidiary of the Group in which the Group has 60% of the equity interest. Pursuant to the sale and purchase agreement, the Group agreed to sell its entire equity interests in Daoyue to NWS at an initial consideration of RMB555.7 million (the "Disposal"). Accordingly, the Sui-Yue Expressway segment owned and operated by Daoyue was classified as discontinued operation and the assets and liabilities of Daoyue are presented as disposal group held for sale.

For the year ended 31 December 2022, the profit (net of tax) from discontinued operation was about RMB37.7 million, decreased by about 23.4% from about RMB49.2 million for the year ended 31 December 2021 (restated). The decrease was mainly due to the COVID 19 pandemic and provision in respect of the compensations and liabilities to be borne by Daoyue under the legal proceedings relating to construction contract dispute commenced in 2021 whereby Daoyue was a defendant.

REVENUE

For the year ended 31 December 2022, the Group recorded revenue of approximately RMB409.9 million, decreased by 40.5% from that of approximately RMB688.5 million for the year ended 31 December 2021 (restated).

The toll revenue received from the First Phase of Qing Ping Expressway was about RMB68.8 million for the year ended 31 December 2022, decreased by 22.6% from about RMB88.9 million for the year ended 31 December 2021 (restated). The traffic flow of the Qing Ping Expressway was about 20.9 million vehicles, decreased by about 22.6% from that of 27.0 million vehicles for the year ended 31 December 2021. The major reason for the decrease was the COVID-19 pandemic, the increase in the petroleum price and the traffic diversion to the surrounding new roads.

For the sales of liquor and spirits, the lock-down of the PRC cities during the pandemic period discouraged the consumption of liquor and spirits in social gathering and business entertainment for the year ended 31 December 2022. The total revenue was about RMB341.1 million, decreased by about 43.1% from that of RMB599.6 million for the year ended 31 December 2021 (restated). Huamaojiu was still the main brand of liquors sold during the year ended 31 December 2022, accounted for about 73.3% of the total revenue of the segment of business. In addition, the Group also sold other brands of liquors, such as Xijiushaofang (習酒燒坊) during the year ended 31 December 2022.

COST AND GROSS PROFIT

The Group had a gross profit of about RMB119.7 million for the year ended 31 December 2022, decreased by 42.6% from about RMB208.4 million for the year ended 31 December 2021 (restated). The decrease in gross profit was mainly due to the decrease in the revenues during the COVID-19 pandemic period. The gross profit ratio was about 29.2% for the year ended 31 December 2022, decreased from about 30.3% for the year ended 31 December 2021 (restated).

For the Qing Ping Expressway, the cost of sales was about RMB54.7 million and the gross profit ratio was about 20.5% for the year ended 31 December 2022. The decrease in the gross profit ratio of the Qing Ping Expressway from 30.8% for the year ended 31 December 2021 (restated) was mainly due to the plunged toll revenue as a result of the COVID-19 pandemic.

The total cost of sales for the liquor and spirits trading business was about RMB235.5 million and its gross profit ratio was about 31.0% for the year ended 31 December 2022. There was no material fluctuation in the gross profit ratio from about 30.2% of the year ended 31 December 2021 (restated).

OTHER REVENUE AND OTHER NET (LOSS)/INCOME

The Group recorded other revenue of approximately RMB3.4 million and RMB3.9 million for the years ended 31 December 2022 and 2021 (restated) respectively. In addition, the other net loss for the Group was about RMB2.7 million for the year ended 31 December 2022 and the other net income was RMB2.4 million for the year ended 31 December 2021 (restated). Other revenue of the Group was mainly the rental income from the billboards along the Qing Ping Expressway and interest income from bank deposits. Other net (loss)/income mainly represented the exchange difference recorded during the years.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2022 were approximately RMB38.7 million, decreased by 46.6% from approximately RMB72.4 million for the year ended 31 December 2021 (restated). The decrease was mainly due to the one-off share-based payment expenses of approximately RMB30.4 million about granting the share options during the year ended 31 December 2021 (restated).

SELLING AND DISTRIBUTION COSTS

The Group recorded about RMB15.9 million of selling and distribution costs, including advertising fee and staff salary for the year ended 31 December 2022, significantly decreased by 38.5% from about RMB25.8 million for the year ended 31 December 2021 (restated). The amount was mainly used for the liquor and spirits trading business. Since the occasional lock-down during the COVID-19 pandemic period, the advertising and promotion events of the Group were limited during the year ended 31 December 2022.

FINANCE COSTS

For the year ended 31 December 2022, the finance costs of the Group were about RMB1.5 million, decreased by 42.7% from approximately RMB2.7 million for the year ended 31 December 2021 (restated). The decrease was mainly due to the decrease in the amount of total bank loans during the year ended 31 December 2022.

PROFIT FOR THE YEAR

For the year ended 31 December 2022, the Group recorded profit for the year of about RMB86.9 million, decreased by about 35.3% from about RMB134.3 million for the year ended 31 December 2021 (restated). The decrease of the profit for the year was mainly attributed by the significant plunge in the revenue from the trading of liquor and spirits business due to the restrictions in the economic activities in the PRC during the pandemic period.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2022, the Group financed its operations and capital expenditures by internal resources of the Company, borrowings from the controlling shareholder of the Company and bank loans. As at 31 December 2022, total bank loans drawn by the Group amounted to about RMB927.9 million (2021 (restated): approximately RMB987.9 million), about RMB877.9 million out of which was directly associated with the disposal group held for sale. The amount due to the controlling shareholder of the Company was RMB91.1 million (2021 (restated): RMB83.4 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately RMB260.1 million (2021 (restated): approximately RMB271.9 million). Among them, about RMB54.4 million was directly associated with the disposal group held for sale.

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient cash and bank balances and standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2022, total banking facilities of the Group amounted to approximately RMB927.9 million, which were mainly for the settlement of construction costs of the Sui-Yue Expressway and general working capital. The ratio of total outstanding bank loans and other borrowing, for the continuing operations only, to total equity was 0.06 (2021 (restated): 1.38).

As at 31 December 2022, the bank loans and other borrowing were repayable as follows:

	2022 RMB'000
Within 1 year or on demand	50,000

As at 31 December 2022, the short-term bank loan of RMB50,000,000 borrowed by a subsidiary of the Group was guaranteed by the Company.

As at 31 December 2022, the bank loans and other borrowing directly associated with the disposal group held for sale were repayable as follows:

	2022 RMB'000
Within 1 year or on demand	80,000
After 1 year but within 2 years	80,000
After 2 years but within 5 years	250,000
After 5 years	467,924
	877,924

As at 31 December 2022, the Company had issued a guarantee to a bank in respect of a banking facility granted to Daoyue. Such guarantee will be released after the completion of the Disposal.

The Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2022, 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

As 31 December 2022, the intangible asset relating to service concession arrangement of RMB115,091,000 represents the right of the Group to operate the Qing Ping Expressway and receive toll fees therefrom. No impairment indicators were identified by management at the end of reporting period.

During the year, the intangible asset relating to service concession arrangement of the rights to operate the Sui-Yue Expressway operated by Daoyue classified as assets held for sale as set out in note 8. Immediately before the initial classification of the disposal group as held for sale, an assessment on whether there is a further impairment or a reversal of impairment on the carrying amounts of the intangible asset relating to the Sui-Yue Expressway in the disposal group was made. Accordingly, management performed the impairment assessment based on a valuation report prepared by an external valuer, Ernst & Young, appointed by management using a discounted cash flow forecast for the cash generating unit ("CGU"). No further provision or reversal of impairment loss for intangible assets relating to service concession arrangement of the Sui Yue Expressway is considered necessary by management. Upon and subsequent to the initial classification, the disposal group held for sale was measured at the lower of its carrying amount and fair value less costs to sell. Management estimated the fair value less costs to sell of the disposal group upon initial reclassification and at the end of the reporting period. The fair value less costs to sell of the disposal group is higher than the carrying amount of the disposal group upon the reclassification and at the end of the reporting period.

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 and the amount due to the controlling shareholder of the Company are denominated in HKD.

As at 31 December 2022, 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 HKD 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 2022, the bank loans of RMB877.9 million from China Merchants Bank directly associated with the disposal group held for sale were secured by the pledge of the toll collection right in relation to the Sui-Yue Expressway.

CAPITAL COMMITMENTS

As at 31 December 2022, there was an amount of about RMB63.4 million commitment for the investment in an associate (2021 (restated): Nil) outstanding for the Group.

BUSINESS REVIEW

Qing Ping Expressway

For the year ended 31 December 2022, the total toll revenue of Qing Ping Expressway was about RMB68.8 million, decreased by about 22.6% from about RMB88.9 million for the year ended 31 December 2021 (restated). The average traffic flow for the year ended 31 December 2022 was about 1.7 million vehicles per month, decreased by about 22.7% from about 2.2 million vehicles per month for the year ended 31 December 2021. Average toll for the year ended 31 December 2022 was about RMB3.3 per vehicle, which is nearly the same for the year ended 31 December 2021.

Trading of Liquor and Spirits

The COVID-19 pandemic also adversely affected the business of liquor and spirits during the year ended 31 December 2022. With the occasional lock-down policy and the restrictions in the social activities, the consumption of alcoholic beverages dropped significantly. The Group recorded a revenue of trading of liquor and spirits of approximately RMB341.1 million, decreased by about 43.1% from the year ended 31 December 2021 (restated). For the year ended 31 December 2022, active marketing campaigns and promotions were limited and segment adjusted EBITDA dropped by 39.1% to about RMB78.2 million.

Disposal of 60% of the Equity Interest in Daoyue

On 1 December 2022, the Group entered into a sales and purchase agreement with NWS, a minority shareholder who owned 40% of the equity interest of Daoyue. Pursuant to the sale and purchase agreement, the Group agreed to sell the 60% of the equity interest in Daoyue at a consideration of RMB555.7 million. The Disposal was expected to be completed in or about April 2023.

Upon the completion of the Disposal, the Group will receive a substantial amount of consideration, which will improve the cash position of the Group. The Disposal provides an opportunity to the Group to unlock the Group's investment amid the recent uncertain economic environment and fluctuating COVID-19 pandemic condition in the PRC.

Special Interim Dividend

The Group declared a special interim dividend of HK\$0.121 per share to the shareholders of the Company on 2 March 2023 after considering the business, financial and cashflow position of the Group. The dividend will be paid on or about 4 April 2023.

Employees and Emoluments

As at 31 December 2022, the Group had a total of 457 (2021: 480) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2022, the Group's total expenses on the remuneration of employees were approximately RMB53.7 million (2021 (restated): RMB88.5 million, of which there was an amount of about RMB34.7 million of share-based payment expenses about granting the share options during the year ended 31 December 2021). For the continuing operations, the number of employees as at 31 December 2022 and the total expenses on the remuneration of the employees for the year ended 31 December 2022 were about 285 (2021: 293) and RMB38.4 million (2021 (restated): RMB69.5 million) respectively. On the other hand, for the discontinued operation of the Sui-Yue Expressway, the number of employees as at 31 December 2022 was about 172 (2021: 187) and the total expenses on the remuneration of the employees for the year ended 31 December 2022 were about RMB15.3 million (2021 (restated): RMB19.0 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 11 June 2020 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.

The 40,000,000 share options granted in 2021 were expired and lapsed in 2022. There was no share option outstanding under the share option scheme as at 31 December 2022 (2021: 40,000,000).

PROSPECTS

With the outbreak of the COVID-19 pandemic, the rise in petroleum price and the continued increase in interest rate, the Group faced a historical challenge in our business. The revenue and the profit of the Group plunged significantly for the year ended 31 December 2022. But with the ease of restrictions and resumption of the economy in the PRC from the beginning of 2023, the most difficult period was over and the business has been rapidly returned to normal in the first quarter of 2023.

For the Qing Ping Expressway, with the recovery and growth in the economic activities in Shenzhen, the traffic flow and the toll revenue increased substantially in the first few months of 2023. The business of trading liquor and spirits also recovered and improved significantly in the first quarter of 2023. The Group is full of confidence about the performance of this business segment in the post COVID-19 pandemic period. With the established marketing network and efficient distribution channel, the Group will continue its effort in the brand building for Huamaojiu and Xijiushaofang. More sales and marketing activities will be arranged in the future, such as the wine tasting events and promotion conference.

After the realisation of the 60% of the equity interest in the Sui-Yue Expressway, there will be a cash inflow of about RMB496.3 million. This amount will significantly improve the liquidity and cash flow of the Group. In addition, the disposal of the Sui-Yue Expressway will significantly reduce the gearing of the Group and increase its sustainability, especially in the high interest rate environment.

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 infrastructure projects, the Group may also consider developing and expanding the liquor and spirits business including but not limited to acquisition of wine manufacturing business shall the appropriate opportunities arise. 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 (the "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 2022.

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 2022.

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 2022, 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 confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2022.

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 (the “Audit Committee”) with written terms of reference in compliance with the CG Code. The Audit Committee is accountable to the Board and its primary duties 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 and has professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The Audit Committee has met and discussed with the external auditor 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 2022. The Audit Committee considered that the consolidated results of the Group for the year ended 31 December 2022 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made. The external auditor of the Company, KPMG, has agreed that the financial figures in respect of the Group’s annual results for the year ended 31 December 2022 contained in this announcement are consistent with the amounts set out in the Group’s draft consolidated financial statements for the year ended 31 December 2022.

FINAL DIVIDEND

The Board does not recommend any final dividend payment for the year ended 31 December 2022.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held in Hong Kong on 1 June 2023. Notice of the annual general meeting will be issued and dispatched to shareholders of the Company in due course. The Company’s register of members will be closed from 29 May 2023 to 1 June 2023 (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 and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on 25 May 2023.

PUBLICATION OF 2022 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 2022 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, 30 March 2023

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