

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

INTERIM REPORT

2019



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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chan Yeung Nam (*Chairman*)
Mai Qing Quan (*Chief Executive Officer*)
Fu Jie Pin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Xiao Nian
Chu Kin Wang, Peleus
Hu Lie Ge

BOARD COMMITTEES

AUDIT COMMITTEE

Chu Kin Wang, Peleus (*Chairman*)
Hu Lie Ge
Sun Xiao Nian

NOMINATION COMMITTEE

Sun Xiao Nian (*Chairman*)
Hu Lie Ge
Fu Jie Pin

REMUNERATION COMMITTEE

Hu Lie Ge (*Chairman*)
Chu Kin Wang, Peleus
Fu Jie Pin

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

Zhou Fu Zu
Xingguangcun Sanhexiang
Yueyang Economic and Technological Development Zone
Yueyang
Hunan Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1205, 12/F
Tower 1, Lippo Centre
89 Queensway
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House
3/F, 24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co.
39/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Management Discussion and Analysis

FINANCIAL REVIEW

REVENUE

For the six months ended 30 June 2019 (the “Period”), Huayu Expressway Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) recorded revenue of approximately HK\$202.1 million, increased by about 92.8% from the corresponding period of last year of approximately HK\$104.8 million. The increase was mainly due to the fast growing liquor and spirits trading business during the Period.

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

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

COST AND GROSS PROFIT

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

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

OTHER REVENUE AND OTHER NET INCOME/(LOSS)

The Group recorded other revenue of approximately HK\$1.3 million for the Period and HK\$0.3 million for the corresponding period of last year. In addition, the other net income was about HK\$1.2 million for the Period. Other revenue of the Group mainly referred to the rental income from the billboard along the Expressway and interest income from bank deposits. Other net income mainly represented the exchange gain recorded during the Period.

Management Discussion and Analysis

ADMINISTRATIVE EXPENSES

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

SELLING AND DISTRIBUTION COSTS

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

FINANCE COSTS

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

PROFIT FOR THE PERIOD

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

Management Discussion and Analysis

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

EMPLOYEES AND EMOLUMENTS

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

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

FOREIGN EXCHANGE RISK

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

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

PLEDGE OF ASSETS

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

Management Discussion and Analysis

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

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

TRADING OF LIQUOR AND SPIRITS

With the good relationship with the Kweichow Moutai Group, the Group entered into a sole distributorship agreement for the distribution and sales of Huamaojiu in the PRC in 2018 and commenced its liquor and spirits trading business from the last quarter last year. Huamaojiu is one of the famous liquor brands produced by Kweichow Moutai Group with retail price about RMB500 to RMB1,000 per standard 500ml bottle. According to the sole distributorship agreement, the Group will be responsible for the sales and distribution, brand building and the establishment of distribution network of the Huamaojiu throughout the PRC. For the Period, we appointed about 69 distributors throughout the country and total sales were about HK\$107.1 million.

DISPOSAL OF 30% OF THE INTEREST IN THE EXPRESSWAY

On 18 October 2018, the Group entered into an agreement with Guangdong Xin Chuan Co., Ltd., a subsidiary of NWS Holdings Limited (“NWS”), a company listed on the Main Board of the Stock Exchange to dispose of 30% interest in the Expressway for a consideration of about RMB352.5 million. All the conditions precedent under the agreement had been fulfilled and completion took place on 17 December 2018. On 8 January 2019 and 16 May 2019, about RMB335.1 million and RMB5.2 million, after the deduction of the PRC income tax and other related tax, were received respectively.

After completion of the transaction, the Group’s interest in the Expressway decreased from 90% to 60%. Yet, the transaction brought a lot of benefits to the Group and the shareholders of the Company. Through this transaction, we brought a strategic partner to the Group in the view that NWS has a leading market position in the roads business. With the participation of management in the Expressway and the provision of financial support to the Expressway, the new strategic partner can benefit and contribute to the business development of the Expressway.

Management Discussion and Analysis

Moreover, the transaction provided an opportunity for the Group to unlock the value of the Expressway for the interest of the Group and the shareholders of the Company. A gain on disposal of partial interests in subsidiary of about HK\$319.4 million was recognised in the equity account of the Group in 2018. On 4 February 2019, the Company decided to declare a special dividend of HK12.1 cents per share. This special dividend was paid on or about 12 March 2019.

PROSPECTS

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

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

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

With the experience of the Directors in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them with the PRC, the Group will continue to tap and pursue opportunities which are consistent with its overall business strategies, and will aim to generate a satisfactory return on investment.

In accordance with this strategy, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we may also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so. Furthermore, the Group will also consider extending its operation to include some other prosperous business once favourable opportunity appears.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of Directors	Nature of Interest	Number of Shares	Percentage
Mr. Chan Yeung Nam (<i>Note</i>)	Interest of controlled corporation	300,000,000 (L)	72.71%

Note: Mr. Chan Yeung Nam, an executive Director and chairman of the Board of the Directors, is deemed to be interested in 300,000,000 shares of the Company held by Velocity International Limited by virtue of it being wholly-owned by him.

On 12 January 2018, Velocity International Limited had pledged 300,000,000 shares of the Company to TCG Capital Investment Limited (which is wholly owned by Mr. Chan Weng Lin) as security for another term loan facility provided to Velocity International Limited.

Apart from the foregoing, as at 30 June 2019, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the Period was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

Corporate Governance and Other Information

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 30 November 2009 for the purpose of motivating eligible persons to optimize 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 maximum number of shares which may be issued upon exercise of all options (the “Option”) to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares of the Company in issue as at 23 December 2009, being the date on which the Shares were listed on the Main Board of the Stock Exchange (the “Listing Date”), i.e. 40,000,000 shares. No Option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the Options granted and to be granted to the grantee in any 12-month period exceeds 1% of the shares in issue from time to time.

The Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board of the Directors and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the Option is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of a share as stated in the Stock Exchange’s daily quotations sheet on the offer date; and
- (c) the average closing price of a share as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further Option will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

Since the Share Option Scheme became effective on 30 November 2009, no Option has been granted by the Company under the Share Option Scheme.

The total number of shares available for issue under the Share Option Scheme is 40,000,000, representing approximately 9.69% and 9.69% of the Company’s issued share capital as at the date of the Company’s 2018 annual report and as at the date of this interim report, respectively.

Corporate Governance and Other Information

Apart from the foregoing, at no time during the Period was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, so far as is known to any Directors or chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% or more of the nominal value of any shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	Capacity/Nature of Interest	Long position in ordinary Shares held	Percentage of total issued shares
Velocity International Limited (Note)	Beneficial owner	300,000,000(L)	72.71%
TCG Capital Investment Limited (Note)	Person having security interest in shares	300,000,000(L)	72.71%
Chan Weng Lin (Note)	Interest of Controlled Corporation	300,000,000(L)	72.71%

Note: The entire issued share capital of Velocity International Limited is owned by Mr. Chan Yeung Nam, an executive Director and chairman of the Board. On 12 January 2018, Velocity International Limited had pledged 300,000,000 shares of the Company to TCG Capital Investment Limited (which is wholly-owned by Mr. Chan Weng Lin) as security for a term loan facility provided to Velocity International Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

CORPORATE GOVERNANCE

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

Corporate Governance and Other Information

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.

REVIEW OF THE INTERIM REPORT

This interim financial report for the Period has not been audited, but has been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the external auditors 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 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This 2019 interim report of the Company is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk) respectively.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to 30 June 2019 up to the date of this interim financial report.

On behalf of the Board of
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 23 August 2019

Review Report of Interim Financial Report



Review report to the board of directors of Huayu Expressway Group Limited
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 14 to 44 which comprises the consolidated statement of financial position of Huayu Expressway Group Limited (“the Company”) and its subsidiaries (together “the Group”) as of 30 June 2019 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Review Report of Interim Financial Report

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 August 2019

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000
Revenue	4	202,080	104,775
Cost of sales		(106,326)	(37,045)
Gross profit		95,754	67,730
Other revenue	5	1,323	341
Other net income/(loss)	5	1,246	(49)
Administrative expenses		(20,020)	(12,651)
Selling and distribution costs		(7,844)	–
Profit from operations		70,459	55,371
Finance costs	6(a)	(27,978)	(29,059)
Profit before taxation	6	42,481	26,312
Income tax	7	(11,597)	(4,320)
Profit for the period		30,884	21,992
Attributable to:			
Equity shareholders of the Company		24,700	19,462
Non-controlling interests		6,184	2,530
Profit for the period		30,884	21,992
Earnings per share (HK Cents)			
Basic and diluted	8	5.99	4.72

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

The notes on pages 21 to 44 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(c).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 – unaudited

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

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

The notes on pages 21 to 44 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2019 – unaudited

	Note	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Non-current assets			
Property, plant and equipment	9	16,884	11,323
Intangible asset – service concession arrangement	10	1,280,057	1,302,242
Deferred tax assets		150,237	157,796
		1,447,178	1,471,361
Current assets			
Inventories		37,305	1,917
Prepayments and other receivables	11	57,522	43,567
Amount due from related parties	17(c)	11,709	388,330
Cash and cash equivalents	12	232,099	43,317
Other current assets		47	253
		338,682	477,384
Current liabilities			
Accruals and other payables	13	94,629	113,952
Contract liabilities		21,962	–
Amount due to related companies	17(c)	575	220,487
Bank loan and other borrowing	14	85,260	79,891
Lease liabilities		1,271	–
		203,697	414,330
Net current assets		134,985	63,054

Consolidated Statement of Financial Position

at 30 June 2019 – unaudited

	Note	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Total assets less current liabilities		1,582,163	1,534,415
Non-current liabilities			
Bank loan and other borrowing	14	997,166	935,866
Amount due to the controlling shareholder of the Company	17(c)	101,976	101,976
Amount due to a related company	17(c)	–	3,877
Lease liabilities		1,861	–
		1,101,003	1,041,719
NET ASSETS		481,160	492,696
CAPITAL AND RESERVES	15		
Share capital		4,126	4,126
Reserves		383,617	405,730
Total equity attributable to equity shareholders of the Company		387,743	409,856
Non-controlling interests		93,417	82,840
TOTAL EQUITY		481,160	492,696

Approved and authorised for issue by the Board of Directors on 23 August 2019

Chan Yeung Nam
Chairman

Mai Qing Quan
Director

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

The notes on pages 21 to 44 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2019 – unaudited

	Attributable to equity shareholders of the Company						Non-controlling interests	Total
	Share capital	Share premium	Other reserve	Exchange reserve	Accumulated losses	Total		
	Note 15(a) HK\$'000	Note 15(b)(i) HK\$'000	Note 15(b)(iii) HK\$'000	Note 15(b)(v) HK\$'000	HK\$'000	HK\$'000		
Balance at 1 January 2018	4,126	130,044	502,784	42,677	(657,511)	22,120	12,171	34,291
Changes in equity for the six months ended 30 June 2018:								
Profit for the period	-	-	-	-	19,462	19,462	2,530	21,992
Other comprehensive income	-	-	-	(1,719)	-	(1,719)	(189)	(1,908)
Total comprehensive income	-	-	-	(1,719)	19,462	17,743	2,341	20,084
Balance at 30 June 2018 and 1 July 2018	4,126	130,044	502,784	40,958	(638,049)	39,863	14,512	54,375
Changes in equity for the six months ended 31 December 2018:								
Profit for the period	-	-	-	-	57,118	57,118	7,559	64,677
Other comprehensive income	-	-	-	(6,558)	-	(6,558)	(331)	(6,889)
Total comprehensive income	-	-	-	(6,558)	57,118	50,560	7,228	57,788
Disposal of partial interests in a subsidiary	-	-	319,433	-	-	319,433	61,100	380,533
Balance at 31 December 2018	4,126	130,044	822,217	34,400	(580,931)	409,856	82,840	492,696

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

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2019 – unaudited

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserve	Other reserve	Share-based compensation reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total
	Note 15(a)	Note 15(b)(i)	Note 15(b)(ii)	Note 15(b)(iii)	Note 15(b)(iv)	Note 15(b)(v)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2019	4,126	130,044	-	822,217	-	34,400	(580,931)	409,856	82,840	492,696
Changes in equity for the six months ended 30 June 2019:										
Profit for the period	-	-	-	-	-	-	24,700	24,700	6,184	30,884
Other comprehensive income	-	-	-	-	-	(2,344)	-	(2,344)	(440)	(2,784)
Total comprehensive income	-	-	-	-	-	(2,344)	24,700	22,356	5,744	28,100
Disposal of partial interests in subsidiaries	-	-	-	5,409	-	-	-	5,409	4,833	10,242
Equity settled share-based transaction	-	-	-	-	48	-	-	48	-	48
Dividends approved in respect of the previous year	-	(49,926)	-	-	-	-	-	(49,926)	-	(49,926)
Appropriation to statutory reserve	-	-	1,956	-	-	-	(1,956)	-	-	-
Balance at 30 June 2019	4,126	80,118	1,956	827,626	48	32,056	(558,187)	387,743	93,417	481,160

The notes on pages 21 to 44 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000
Operating activities			
Cash generated from operations		58,351	96,299
Tax paid		(1,692)	–
Net cash generated from operating activities		56,659	96,299
Investing activities			
Payment for the purchase of fixed assets		(3,430)	(437)
Payment for intangible assets		(26,955)	(23,231)
Other cash flows arising from investing activities		952	43
Net cash used in investing activities		(29,433)	(23,625)
Financing activities			
Capital element of lease rental paid		(585)	–
Interest element of lease rentals paid		(73)	–
Proceeds of loan and other borrowings		147,262	–
Repayment of loan and other borrowings		(75,270)	(44,083)
Advances from the controlling shareholder of the Company (Repayment of)/advances from a related company		– (223,713)	4,499 9,819
Borrowing costs paid		(25,683)	(29,276)
Net proceeds from disposal of partial interests in subsidiaries		392,810	–
Dividends paid to equity shareholders of the Company		(49,926)	–
Net cash generated from/(used in) financing activities		164,822	(59,041)
Net increase in cash and cash equivalents		192,048	13,633
Cash and cash equivalents at 1 January		43,317	30,524
Effect of foreign exchange rate changes		(3,266)	(674)
Cash and cash equivalents at 30 June	12	232,099	43,483

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

The notes on pages 21 to 44 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

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

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

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

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

The 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. KPMG's independent review report to the Board of Directors is included on page 12 to 13.

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

As of 30 June 2019, the Group had net current assets of \$134,985,000 and accumulated losses of \$558,187,000. On 17 December 2018, the Group completed the disposal of 30% equity interest in a subsidiary (the "Transaction"), which introduced a strategic partner to the Group and strengthened the Group's cash position. The net proceeds of \$394,012,000 from the Transaction, which has been received during the period (see (iv) below), will mainly be used as general working capital for the payment of operating costs, such as staff costs and/or lowering the indebtedness of the Group by possible repayment of loans and liabilities such as bank loan. See note 15(b)(iii)(3).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION (CONTINUED)

As of 30 June 2019, the Group had a bank loan of \$971,964,000 and borrowing from a related party of \$110,462,000 with finance costs of \$27,905,000 incurred for the period then ended. The Group is dependent upon the financial support from its bankers, its controlling shareholder and the non-controlling shareholder, and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

- (i) the Group expects to continue to generate positive operating cash flows for the next twelve months;
- (ii) the controlling shareholder of the Company has undertaken that repayment of advances of \$101,976,000 at 30 June 2019 will not be requested until after 31 December 2020, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time;
- (iii) the controlling shareholder has confirmed its intention to provide adequate financial support to the Group as is necessary to ensure the Group's continuing operation for a period of at least 12 months from the end of the reporting period; and
- (iv) the net proceeds of \$387,996,000 and \$6,016,000 from the Transaction have been received on 8 January 2019 and 16 May 2019 respectively, and on 1 February 2019 the non-controlling shareholder has provided a financial support of \$112,522,000 to Hunan Daoyue Expressway Industry Co., Ltd., a subsidiary of the Group which has material non-controlling interest.

Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern and has prepared the interim financial report on a going concern basis.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

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

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, LEASES

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

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

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

(a) Changes in the accounting policies

(i) *New definition of a lease*

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, LEASES (CONTINUED)

(a) Changes in the accounting policies (CONTINUED)

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 9.

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

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

Determining the lease term

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

(c) Transitional impact

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, LEASES (CONTINUED)

(c) Transitional impact (CONTINUED)

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

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 16(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16, LEASES (CONTINUED)

(c) Transitional impact (CONTINUED)

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

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

CHANGE IN ACCOUNTING ESTIMATES IN RESPECT OF THE AMORTISATION OF INTANGIBLE ASSETS RELATING TO SERVICE CONCESSION ARRANGEMENT

The directors perform a periodic assessment of the total projected traffic volume and prospectively adjust the amortisation unit according to revised projected traffic volume. In May 2019, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of Sui-Yue Expressway (Hunan Section). The Group has adjusted the amortisation unit for the related concession intangible assets according to the revised total projected traffic volume since 1 January 2019 on a prospective basis. Due to such change in accounting estimate, the amortisation charges to current and future cost of sales has changed as below:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

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

(A) DISAGGREGATION OF REVENUE

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(B) INFORMATION ABOUT PROFIT OR LOSS, ASSETS AND LIABILITIES

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(C) RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT OR LOSS

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

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

5 OTHER REVENUE AND NET INCOME/(LOSS)

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Other revenue		
Billboard rental income	371	298
Interest income from bank deposits	952	43
	1,323	341
Other net income/(loss)		
Net foreign exchange gain/(loss)	1,157	(249)
Others	89	200
	1,246	(49)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

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

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods ended 30 June 2019 and 2018.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC is liable to PRC corporate income tax at a rate of 25% (2018: 25%) on its assessable profits. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset-service concession arrangement, deductible tax losses and other deductible temporary differences.

8 EARNINGS PER SHARE

(A) EARNINGS PER SHARE

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

(B) DILUTED EARNINGS PER SHARE

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

(A) RIGHT-OF-USE ASSETS

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of office premises, and therefore recognised the additions to right-of-use assets of HK\$3,717,000.

(B) ACQUISITIONS AND DISPOSALS OF OWNED ASSETS

During the six months ended 30 June 2019, the Group acquired items of equipment with a cost of HK\$4,092,000 (six months ended 30 June 2018: HK\$437,000). No item was disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Cost:		
At 1 January	2,240,140	2,353,054
Exchange adjustments	(8,655)	(112,914)
At 30 June/31 December	2,231,485	2,240,140
Accumulated amortisation:		
At 1 January	251,240	214,183
Charge for the period/year	17,550	48,556
Exchange adjustments	(1,311)	(11,499)
At 30 June/31 December	267,479	251,240
Accumulated impairment loss:		
At 1 January	686,658	719,749
Exchange adjustments	(2,709)	(33,091)
At 30 June/31 December	683,949	686,658
Net book value:		
At 30 June/31 December	1,280,057	1,302,242

The service concession arrangement represents the Group's right to operate the Sui-Yue Expressway (Hunan Section) (the "Expressway") and receive fees therefrom.

The amortisation of intangible asset – service concession arrangement is recognised in statement of profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (CONTINUED)

IMPAIRMENT LOSS

The recoverable amount of the cash generating unit containing the Expressway was determined by value in use, based on the expected free cash flows up to the end of the service concession arrangement period, and a pre-tax discount rate.

Key assumptions used for the value in use calculation of 2018 are average annual toll revenue growth rate over the concession period of 3.2%, and pre-tax discount rate of 19.0%.

The discount rate is a pre-tax measure estimated using the Capital Asset Pricing Model based on the industry average ratios and the CGU's specific risks.

Management are not aware of any significant changes in the assumptions in current period. As the Expressway was written down to recoverable amount in previous periods, any further adverse changes in the key assumptions used in determining the value in use may lead to further impairment of the intangible asset.

11 PREPAYMENTS AND OTHER RECEIVABLES

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

12 CASH AND CASH EQUIVALENTS

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Cash at bank and on hand	232,099	43,317

13 ACCRUALS AND OTHER PAYABLES

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

14 BANK LOAN AND OTHER BORROWING

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
<i>Current liability</i>		
Current portion of a long-term secured bank loan	85,260	79,891
<i>Non-current liabilities</i>		
Long-term secured bank loan	886,704	935,866
Interest-bearing borrowing	110,462	–
	1,082,426	1,015,757

At 30 June 2019 and 31 December 2018, the bank loan was repayable as follows:

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Within 1 year or on demand	85,260	79,891
After 1 year but within 2 years	96,628	91,304
After 2 years but within 5 years	352,408	342,390
After 5 years	548,130	502,172
	1,082,426	1,015,757

The Group's rights to operate the Expressway and receive toll fees therefrom, have been pledged to secure the bank loan.

The bank loan of the Group is subject to certain financial covenants. The Group regularly monitors its compliance with these covenants, and adherence to the timetable of the scheduled repayments of the term loan and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 June 2019, none of the covenants relating to drawn down facilities had been breached (2018: Nil).

The other borrowing was proceeded from the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd., which is unsecured with interest rate based on the relevant one to five years benchmark interest rate published by the People's Bank of China.

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15 CAPITAL, RESERVES AND DIVIDENDS

(A) SHARE CAPITAL

	2019		2018	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
<i>Ordinary shares, issued and fully paid:</i>				
At 1 January	412,608,000	4,126	412,608,000	4,126
At 30 June 2019/31 December 2018	412,608,000	4,126	412,608,000	4,126

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(B) RESERVES

(i) Share premium

Share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

Pursuant to applicable PRC regulations, PRC subsidiaries are required to appropriate 10% of their profit after tax (after offsetting prior years' losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase paid-in capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(B) RESERVES (CONTINUED)

(iii) Other reserve

- (1) On 13 April 2009, the Company acquired 90% equity interest in Daoyue from Shenzhen Huayu Investment & Development (Group) Co., Ltd. The difference between the historical carrying value of the shares of Daoyue acquired and the acquisition consideration paid by the Company is recorded in "Other reserve".
- (2) Pursuant to the Group's reorganisation before its initial public offering, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from group companies amounted to HK\$513,388,000. The difference between the assigned receivable balances over the nominal value of HK\$3,000,000 of the shares issued by the Company in exchange thereof was also recorded in "Other reserve".
- (3) On 17 December 2018, 17 June 2019 and 18 June 2019, the Group completed the disposal of 30% equity interest in Daoyue, 20% equity interest in Yuanque and 10% equity interest in Healthy Wine respectively. The difference between the fair value of consideration receivable and the net book value of subsidiary and other directly related transaction costs was recorded in "Other reserve". The effect of the Transaction is summarised as follow:

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Consideration	12,505	385,812
Increase in non-controlling interests	(4,833)	(61,100)
Transaction costs	(2,263)	(5,279)
Excess of consideration receivable recognised in equity	5,409	319,433

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15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(B) RESERVES (CONTINUED)

(iv) Share-based compensation reserve

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employee as consideration for equity instruments (restricted shares) of a subsidiary. The restricted shares are recognised for the difference between the grant price and the fair value of the restricted shares at the grant date.

The executive director of a subsidiary approved the Restricted Share Award Scheme (the "Award Scheme") on 18 June 2019 (the "Grant Date"). Subsequently the restricted shares were allotted to the selected participant. Selected participants are entitled to the related distribution derived from the relevant restricted shares during the period from the date of the allotted of the restricted shares to the vesting date (both dates inclusive) of such restricted shares.

The selected participant is a management of a subsidiary. The total consideration of the restricted shares is HK\$5,684,000.

If the selected participant does not meet the vesting conditions, the restricted share will be repurchase based on the net asset of the subsidiary.

The above transaction was considered as equity-settled share-based payment to employee. The fair value of the subsidiary's shares allotted to employee on grant date, as determined by a professional valuation firm, was HK\$9,586,000. Share-based payment expense of HK\$48,000 was recognised for the period ended 30 June 2019 (2018: Nil).

(v) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation.

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(C) DIVIDENDS

(i) Dividends payable to equity shareholders attributable to the interim period

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2019 (2018: Nil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Special dividend in respect of the year ended 31 December 2018, approved and paid during the period, of HK12.1 cents per ordinary share (six months ended 30 June 2018: Nil)	49,926	–

(D) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-equity ratio. For this purpose, adjusted net debt is defined as total debt (which includes accruals and other payables, amounts due to related parties and bank loan). Equity comprises all components of equity.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. The Group's net debt-to-equity ratio was unchanged (i.e. 296%) on 1 January 2019 compared to its position as at 31 December 2018.

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16 COMMITMENTS

(A) CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

At 30 June 2019, the Group had no capital commitments outstanding not provided for in the interim financial report (31 December 2018: Nil).

(B) AT 31 DECEMBER 2018, THE TOTAL FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES WERE PAYABLE AS FOLLOWS:

	Properties HK\$'000
Within 1 year	754
After 1 year but within 2 years	777
After 2 year but within 3 years	732
	2,263

The Group is the lessee in respect of a property which was previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

17 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim financial report, the Group entered into the following material related party transactions.

(A) DURING THE PERIOD, THE DIRECTORS ARE OF THE VIEW THAT THE FOLLOWING INDIVIDUAL AND COMPANIES ARE RELATED PARTIES OF THE GROUP:

Name of party	Relationship
Mr Chan Yeung Nam	Controlling shareholder of the Company
Shenzhen Huayu Investment & Development (Group) Co., Ltd.* 深圳華昱投資開發(集團)有限公司	Under the control of the controlling shareholder of the Company
Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.* 深圳華昱道路養護工程有限公司	Under the control of the controlling shareholder of the Company
Guangdong Xin Chuan Co., Ltd.* 廣東新川有限公司	Substantial shareholder of a subsidiary
Guizhou Ruoshui Fangyuan Investment Management Co., Ltd.* 貴州若水方圓投資管理有限公司	Substantial shareholder of a subsidiary
Ran Changxian* 冉昌賢	Substantial shareholder of a subsidiary

* The English translation of the companies or person name are for reference only. The official name of these companies and person are in Chinese.

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(Expressed in Hong Kong dollars unless otherwise indicated)

17 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(B) PARTICULARS OF SIGNIFICANT TRANSACTIONS BETWEEN THE GROUP AND THE ABOVE RELATED PARTIES DURING THE PERIOD ARE AS FOLLOWS:

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
<i>Non-recurring transactions</i>		
Expense paid on behalf of the Group by related companies		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	452	89
– Guangdong Xinchuan Co., Ltd.	133	–
Advance from related parties		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	4,632	58,915
– The controlling shareholder of the Company	–	4,500
Consideration of disposal of partial interests in a subsidiary from related companies		
– Guangdong Xinchuan Co., Ltd.	394,012	–
– Guizhou Ruoshui Fangyuan Investment Management Co., Ltd.	811	–
Repayment to Shenzhen Huayu Investment & Development (Group) Co., Ltd.	232,364	49,096
Borrowing from Guangdong Xinchuan Co., Ltd.	112,522	–
Interest on borrowing from Guangdong Xinchuan Co., Ltd.	2,227	–
Receiving services from Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	–	2,946

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17 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(C) BALANCES WITH RELATED PARTIES

As at 30 June 2019 and 31 December 2018, the Group had the following balances with related parties:

	At 30 June 2019 HK\$'000	At 31 December 2018 HK\$'000
Amount due from related parties		
– Guangdong Xinchuan Co., Ltd.	–	338,330
– Guizhou Ruoshui Fangyuan Investment Management Co., Ltd.	6,025	–
– Ran Changxian	5,684	–
Amount due to related parties		
– Guangdong Xinchuan Co., Ltd.	(131)	–
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	(444)	(224,364)
Amount due to the controlling shareholder of the Company	(101,976)	(101,976)
Borrowing from Guangdong Xinchuan Co., Ltd.	(110,462)	–
Interest payable to Guangdong Xinchuan Co., Ltd.	(2,186)	–
	(203,490)	11,990

Balances with the controlling shareholder represented advances made from the controlling shareholder of the Group. These advances are unsecured and interest-free.

18 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.