

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

2020



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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 2020 (the “Period”), Huayu Expressway Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) recorded revenue of approximately HK\$186.4 million, decreased by about 7.8% from approximately HK\$202.1 million for the corresponding period of last year. The decrease was mainly due to the toll fee exemption during the control and prevention period of the novel coronavirus infection during the Period.

The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Expressway”) for the Period was about HK\$39.5 million, decreased by 58.4% from about HK\$95.0 million of the corresponding period in 2019. On 15 February 2020, the Ministry of Transport (“MOT”) of the PRC issued the Notice from the Ministry of Transport in relation to the Toll Fees Exemption for Vehicles on Tolled Highways During the Control and Prevention Period of the Novel Coronavirus Infection (Jiao Gong Lu Ming Dian [2020] No. 62) (《交通運輸部關於新冠肺炎疫情期間免收收費公路車輛通行費的通知》(交公路明電[2020] 62號)). According to this notice, the State Council of the PRC permitted a nationwide toll-free policy for all vehicles using tolled highways from 17 February to 5 May 2020. In accordance with this policy, the Company had waived the toll fees of vehicles using the Expressway during this period. Starting from 6 May 2020, collection of the toll fees from vehicles was resumed and the traffic flow recovered significantly in the past few months. In June 2020, the traffic flow of the Expressway was about 963,000 vehicles, which is 3.5% higher than the average monthly traffic flow of 2019.

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

COST AND GROSS PROFIT

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

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

Management Discussion and Analysis

OTHER REVENUE AND OTHER NET (LOSS)/INCOME

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

ADMINISTRATIVE EXPENSES

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

SELLING AND DISTRIBUTION COSTS

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

FINANCE COSTS

During the Period, the finance costs of the Group were about HK\$25.0 million, decreased by about 10.6% from approximately HK\$28.0 million for the corresponding period of last year. The decrease was mainly due to the partial repayment of the bank loan during the Period.

PROFIT FOR THE PERIOD

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

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group financed its operations and capital expenditures with internal resources of the Company, borrowings from the controlling shareholder of the Company and the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd. and long-term bank loan. As at 30 June 2020, total bank loan drawn by the Group amounted to about HK\$897.7 million (as at 31 December 2019: approximately HK\$915.4 million), the borrowing from the non-controlling shareholder of a subsidiary was approximately HK\$106.4 million (as at 31 December 2019: approximately HK\$108.5 million), the amount due to the controlling shareholder of the Company was approximately HK\$102.0 million (as at 31 December 2019: approximately HK\$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$177.7 million (as at 31 December 2019: approximately HK\$234.9 million).

Management Discussion and Analysis

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with its daily operation and any demands for capital in future development. As at 30 June 2020, total banking facilities of the Group amounted to approximately HK\$897.7 million from China Merchants Bank, which were mainly for the settlement of construction costs of the Expressway. The ratio of total outstanding bank loan and other borrowings to total equity was 1.95 (as at 31 December 2019: 1.98).

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

INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

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

EMPLOYEES AND EMOLUMENTS

As at 30 June 2020, the Group employed a total of 250 (as at 31 December 2019: 276) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. During the Period, the Group's total expenses on the remuneration of employees were approximately HK\$12.0 million (six months ended 30 June 2019: approximately HK\$21.1 million).

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

FOREIGN EXCHANGE RISK

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

As at 30 June 2020, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The Management will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 30 June 2020, the bank loan of approximately HK\$897.7 million from China Merchants Bank was secured by a pledge of the toll collection right owned by the Expressway.

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

Due to the improvement of the highway network system in the districts surrounding the Expressway, there was a significant increase in the traffic flow in the Expressway during the past few years, especially the newly induced traffic flow from Hang-Rui Expressway (Hunan Section) “杭瑞高速(湖南段)” and Yue-Wang Expressway “岳望高速”. However, the COVID-19 pandemic happened since February 2020 seriously affected the performance of the operation of the Expressway. The toll fee exemption policy was implemented from 17 February to 5 May 2020 and the limited economic activities during the period adversely affected both of the traffic flow and the toll fee revenue. In May 2020, following the ease of restrictions and the reopening of economy in the PRC, the traffic flow of the Expressway gradually resumed. In addition, starting from 6 May 2020, the Expressway resumed the collection of the toll fees. In June, the total traffic flow and the toll revenue were about 963,000 vehicles and RMB13.9 million respectively.

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

On 15 February and 28 April 2020, the Ministry of Transport (“MOT”) of the PRC issued the Notice from the Ministry of Transport in relation to the Toll Fees Exemption for Vehicles on Tolloed Highways During the Control and Prevention Period of the Novel Coronavirus Infection (Jiao Gong Lu Ming Dian [2020] No. 62) (《交通運輸部關於新冠肺炎疫情防控工作期間免收收費公路車輛通行費的通知》(交公路明電[2020] 62號)) and the Resumption of the Collection of Toll Fees on Tolloed Highways (Jiao Gong Lu Ming Dian [2020] No. 150) (《交通運輸部關於恢復收費公路收費的通知》(交公路明電[2020] 150號)) respectively. According to these notices, the State Council of the PRC permitted a nationwide toll-free policy for all vehicles using tolloed highways (the “Policy”) with effect from 17 February to 5 May 2020. The Policy applied to all tolloed highways including tolloed bridges and tunnels approved and established in accordance with the Highway Law of the PRC (《中華人民共和國公路法》) and the Regulation on Management of Tolloed Highways (《收費公路管理條例》). In accordance with the Policy, the Company had waived the toll fees of vehicles using the Expressway during the specified period.

Management Discussion and Analysis

TRADING OF LIQUOR AND SPIRITS

The Group commenced its trading business of liquor and spirits from 2018 and achieved a good result in 2019. During the Period, the sales dropped significantly owing to the lock-down policy in the PRC triggered by the COVID-19 pandemic. Despite the fact that the temporary restrictions in social gathering and business entertainment discouraged the consumption of liquor and spirits during the Period, the Group kept actively communicating with the suppliers to secure a stable supply after the pandemic. The Group also organised online trainings with the distributors and started to advertise the products on online media during the outbreak of pandemic. With the ease of restrictions and reopening of the economy in the PRC from May 2020, the demand and consumption of liquor and spirits resumed rapidly. The Group recorded a total revenue of HK\$146.9 million, which was similar to that of the sales in the second half of 2019.

PROSPECTS

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

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

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

Corporate Governance and Other Information

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

As at 30 June 2020, 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 2020, 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

On 30 November 2009, the shareholders of the Company approved the adoption of the share option scheme (the “2009 Scheme”). The 2009 Scheme was expired on 29 November 2019. Since the 2009 Scheme became effective on 30 November 2009, no Options was granted. The Company adopted a new share option scheme at the annual general meeting of the Company held on 11 June 2020 (“Share Option Scheme”) 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 of the Company (“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 in issue as at 11 June 2020, i.e. 41,260,800 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 (the “Board”) 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 11 June 2020, 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 11 June 2020, 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 41,260,800, representing approximately 10.0% of the Company’s issued share capital as at the date of the Company’s 2019 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 2020, 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 <i>(Note)</i> | Beneficial owner | 300,000,000 (L) | 72.71% |
| TCG Capital Investment Limited <i>(Note)</i> | Person having security interest in shares | 300,000,000 (L) | 72.71% |
| Chan Weng Lin <i>(Note)</i> | 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 Listing Rules. The Company has complied with the code provisions contained in the CG Code during 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 2020 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 2020 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, 21 August 2020

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 38 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 2020 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 2020 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

21 August 2020

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2020 – unaudited

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

The notes on pages 21 to 38 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020 – unaudited

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Profit for the period | 6,147 | 30,884 |
| 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 | (4,621) | (2,784) |
| Total comprehensive income for the period | 1,526 | 28,100 |
| Attributable to: | | |
| Equity shareholders of the Company | 5,225 | 22,356 |
| Non-controlling interests | (3,699) | 5,744 |
| Total comprehensive income for the period | 1,526 | 28,100 |

The notes on pages 21 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2020 – unaudited

| | Note | At 30 June 2020 HK\$'000 | At 31 December 2019 (audited) HK\$'000 |
|---|-------|-----------------------------------|--|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 17,637 | 19,042 |
| Intangible asset – service concession arrangement | 9 | 1,198,703 | 1,236,431 |
| Interests in associates | | 11,168 | 2,423 |
| Deferred tax assets | | 141,578 | 140,387 |
| | | 1,369,086 | 1,398,283 |
| Current assets | | | |
| Inventories | | 36,432 | 63,880 |
| Prepayments and other receivables | 10 | 112,783 | 55,924 |
| Amounts due from related parties | 16(c) | 4,730 | 10,382 |
| Cash and cash equivalents | 11 | 177,732 | 234,863 |
| | | 331,677 | 365,049 |
| Current liabilities | | | |
| Accruals and other payables | 12 | 64,344 | 90,690 |
| Contract liabilities | | 11,096 | 25,287 |
| Amounts due to related companies | 16(c) | 436 | 758 |
| Bank loan and other borrowings | 13 | 93,058 | 89,304 |
| Lease liabilities | | 1,414 | 1,291 |
| | | 170,348 | 207,330 |
| Net current assets | | 161,329 | 157,719 |

Consolidated Statement of Financial Position

At 30 June 2020 – unaudited

| | Note | At 30 June 2020 HK\$'000 | At 31 December 2019 (audited) HK\$'000 |
|--|-------|-----------------------------------|--|
| Total assets less current liabilities | | 1,530,415 | 1,556,002 |
| Non-current liabilities | | | |
| Bank loan and other borrowings | 13 | 911,059 | 934,532 |
| Amount due to the controlling shareholder of the Company | 16(c) | 101,976 | 101,976 |
| Lease liabilities | | 1,415 | 1,787 |
| | | 1,014,450 | 1,038,295 |
| NET ASSETS | | 515,965 | 517,707 |
| CAPITAL AND RESERVES | 14 | | |
| Share capital | | 4,126 | 4,126 |
| Reserves | | 406,025 | 404,676 |
| Total equity attributable to equity shareholders of the Company | | 410,151 | 408,802 |
| Non-controlling interests | | 105,814 | 108,905 |
| TOTAL EQUITY | | 515,965 | 517,707 |

Approved and authorised for issue by the Board of Directors on 21 August 2020.

Chan Yeung Nam
Chairman

Mai Qing Quan
Director

The notes on pages 21 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 – 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 14(a) HK\$'000 | Note 14(b)(i) HK\$'000 | Note 14(b)(ii) HK\$'000 | Note 14(b)(iii) HK\$'000 | Note 14(b)(iv) HK\$'000 | Note 14(b)(v) 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 and 1 July 2019 | 4,126 | 80,118 | 1,956 | 827,626 | 48 | 32,056 | (558,187) | 387,743 | 93,417 | 481,160 |
| Changes in equity for the six months ended 31 December 2019: | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 25,720 | 25,720 | 12,021 | 37,741 |
| Other comprehensive income | - | - | - | - | - | (4,128) | - | (4,128) | (1,788) | (5,916) |
| Total comprehensive income | - | - | - | - | - | (4,128) | 25,720 | 21,592 | 10,233 | 31,825 |
| Disposal of partial interests in subsidiaries | - | - | - | 1,171 | - | - | - | 1,171 | 1,244 | 2,415 |
| Equity settled share-based transactions | - | - | - | - | 1,897 | - | - | 1,897 | 410 | 2,307 |
| Appropriation to statutory reserve | - | - | 2,259 | - | - | - | (2,259) | - | - | - |
| Capital injection into subsidiaries | - | - | - | (3,601) | - | - | - | (3,601) | 3,601 | - |
| Balance at 31 December 2019 | 4,126 | 80,118 | 4,215 | 825,196 | 1,945 | 27,928 | (534,726) | 408,802 | 108,905 | 517,707 |

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 – 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 14(a) HK\$'000 | Note 14(b)(i) HK\$'000 | Note 14(b)(ii) HK\$'000 | Note 14(b)(iii) HK\$'000 | Note 14(b)(iv) HK\$'000 | Note 14(b)(v) HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance at 1 January 2020 | 4,126 | 80,118 | 4,215 | 825,196 | 1,945 | 27,928 | (534,726) | 408,802 | 108,905 | 517,707 |
| Changes in equity for the six months ended 30 June 2020: | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 9,168 | 9,168 | (3,021) | 6,147 |
| Other comprehensive income | - | - | - | - | - | (3,943) | - | (3,943) | (678) | (4,621) |
| Total comprehensive income | - | - | - | - | - | (3,943) | 9,168 | 5,225 | (3,699) | 1,526 |
| Equity settled share-based transactions | - | - | - | - | 709 | - | - | 709 | 93 | 802 |
| Appropriation to statutory reserve | - | - | 2,459 | - | - | - | (2,459) | - | - | - |
| Capital injection into subsidiary | - | - | - | - | - | - | - | - | 515 | 515 |
| Other | - | - | - | (4,585) | - | - | - | (4,585) | - | (4,585) |
| Balance at 30 June 2020 | 4,126 | 80,118 | 6,674 | 820,611 | 2,654 | 23,985 | (528,017) | 410,151 | 105,814 | 515,965 |

The notes on pages 21 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2020 – unaudited

| | Note | Six months ended 30 June | |
|---|------|--------------------------|------------------|
| | | 2020 HK\$'000 | 2019 HK\$'000 |
| Operating activities | | | |
| Cash (used in)/generated from operations | | (16,381) | 58,351 |
| Tax paid | | (4,579) | (1,692) |
| Net cash (used in)/generated from operating activities | | (20,960) | 56,659 |
| Investing activities | | | |
| Payment for the purchase of fixed assets | | (1,563) | (3,430) |
| Payment for intangible assets | | (1,859) | (26,955) |
| Payment for investing associates | | (9,691) | – |
| Other cash flows arising from investing activities | | 1,062 | 952 |
| Net cash used in investing activities | | (12,051) | (29,433) |
| Financing activities | | | |
| Capital element of lease rentals paid | | (640) | (585) |
| Interest element of lease rentals paid | | (69) | (73) |
| Proceeds of loan and other borrowings | | – | 147,262 |
| Repayment of loan and other borrowings | | – | (75,270) |
| Repayment of a related company | | – | (223,713) |
| Borrowing costs paid | | (22,265) | (25,683) |
| Net proceeds from disposal of partial interests in subsidiaries | | – | 392,810 |
| Dividends paid to equity shareholders of the Company | | – | (49,926) |
| Net cash (used in)/generated from financing activities | | (22,974) | 164,822 |
| Net (decrease)/increase in cash and cash equivalents | | (55,985) | 192,048 |
| Cash and cash equivalents at 1 January | | 234,863 | 43,317 |
| Effect of foreign exchange rate changes | | (1,146) | (3,266) |
| Cash and cash equivalents at 30 June | 11 | 177,732 | 232,099 |

The notes on pages 21 to 38 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 21 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. 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 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2019 are available from the Company's registered office. In the auditors' report dated 27 March 2020, the auditors expressed an unqualified opinion on those financial statements.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

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

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

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

3 REVENUE AND SEGMENT REPORTING

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

(A) DISAGGREGATION OF REVENUE

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

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products or service lines | | |
| – Toll income | 39,503 | 94,985 |
| – Sales of liquor and spirits | 146,894 | 107,095 |
| | 186,397 | 202,080 |

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(A) DISAGGREGATION OF REVENUE (CONTINUED)

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

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

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

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

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

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)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(C) RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT OR LOSS

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Reportable segment profit (adjusted EBITDA) | 61,603 | 92,372 |
| Reportable segment profit derived from the Group's external customers and associates | 61,603 | 92,372 |
| Other revenue | 663 | 902 |
| Other net (loss)/income | (4,958) | 1,160 |
| Depreciation and amortisation | (17,099) | (19,707) |
| Finance costs | (25,007) | (27,978) |
| Unallocated head office and corporate expenses | (3,736) | (4,268) |
| Consolidated profit before taxation | 11,466 | 42,481 |

4 OTHER REVENUE AND NET INCOME/(LOSS)

| | Six months ended 30 June | |
|------------------------------------|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Other revenue | | |
| Billboard rental income | 180 | 371 |
| Interest income from bank deposits | 1,064 | 952 |
| | 1,244 | 1,323 |
| Other net (loss)/income | | |
| Net foreign exchange (loss)/gain | (5,028) | 1,157 |
| Others | 302 | 89 |
| | (4,726) | 1,246 |

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX

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

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods ended 30 June 2020 and 2019.
- (iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC corporate income tax at a rate of 25% (six months ended 30 June 2019: 25%) on their assessable profits. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset-service concession arrangement, deductible tax losses and other deductible temporary differences.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

7 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 \$9,168,000 (six months ended 30 June 2019: \$24,700,000) and the weighted average number of 412,608,000 (six months ended 30 June 2019: 412,608,000) shares in issue during the interim period.

(B) DILUTED EARNINGS PER SHARE

There were no dilutive potential ordinary shares for the six months ended 30 June 2020 and 2019, therefore, diluted earnings per share is equivalent to basic earnings per share.

8 PROPERTY, PLANT AND EQUIPMENT

(A) RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, 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 \$306,000.

(B) ACQUISITIONS AND DISPOSAL OF OWNED ASSETS

During the six months ended 30 June 2020, the Group acquired items of equipment with a total cost of \$1,680,000 (six months ended 30 June 2019: \$4,092,000). No item was disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

| | At 30 June 2020 HK\$'000 | At 31 December 2019 HK\$'000 |
|-------------------------------------|-----------------------------------|---------------------------------------|
| Cost: | | |
| At 1 January | 2,110,082 | 2,240,140 |
| Disposals | – | (82,440) |
| Exchange adjustments | (40,639) | (47,618) |
| At 30 June/31 December | 2,069,443 | 2,110,082 |
| Accumulated amortisation: | | |
| At 1 January | 261,442 | 251,240 |
| Charge for the period/year | 13,997 | 30,142 |
| Written back on disposals | – | (14,156) |
| Exchange adjustments | (5,117) | (5,784) |
| At 30 June/31 December | 270,322 | 261,442 |
| Accumulated impairment loss: | | |
| At 1 January | 612,209 | 686,658 |
| Written back on disposals | – | (60,473) |
| Exchange adjustments | (11,791) | (13,976) |
| At 30 June/31 December | 600,418 | 612,209 |
| Net book value: | | |
| At 30 June/31 December | 1,198,703 | 1,236,431 |

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)

9 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.

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.

10 PREPAYMENTS AND OTHER RECEIVABLES

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

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)

11 CASH AND CASH EQUIVALENTS

| | At 30 June 2020 HK\$'000 | At 31 December 2019 HK\$'000 |
|--------------------------|-----------------------------------|---------------------------------------|
| Cash at bank and on hand | 177,732 | 234,863 |

12 ACCRUALS AND OTHER PAYABLES

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

13 BANK LOAN AND OTHER BORROWINGS

| | At 30 June 2020 HK\$'000 | At 31 December 2019 HK\$'000 |
|--|-----------------------------------|---------------------------------------|
| <i>Current liability</i> | | |
| Current portion of a long-term secured bank loan | 93,058 | 89,304 |
| <i>Non-current liabilities</i> | | |
| Long-term secured bank loan | 804,678 | 826,062 |
| Interest-bearing borrowing | 106,381 | 108,470 |
| | 1,004,117 | 1,023,836 |

At 30 June 2020 and 31 December 2019, the bank loan was repayable as follows:

| | At 30 June 2020 HK\$'000 | At 31 December 2019 HK\$'000 |
|----------------------------------|-----------------------------------|---------------------------------------|
| Within 1 year or on demand | 93,058 | 89,304 |
| After 1 year but within 2 years | 104,006 | 100,467 |
| After 2 years but within 5 years | 462,191 | 465,686 |
| After 5 years | 344,862 | 368,379 |
| | 1,004,117 | 1,023,836 |

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

13 BANK LOAN AND OTHER BORROWINGS (CONTINUED)

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 2020, none of the covenants relating to drawn down facilities had been breached (31 December 2019: 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.

14 CAPITAL, RESERVES AND DIVIDENDS

(A) SHARE CAPITAL

| | As at 30 June 2020 and 31 December 2019 | |
|---|---|----------|
| | No. of shares | HK\$'000 |
| <i>Authorised:</i> | | |
| Ordinary shares of \$0.01 each | 10,000,000,000 | 100,000 |
| Ordinary shares, issued and fully paid: | 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(B) RESERVES (CONTINUED)

(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.

(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 amounting to \$7,604,000 is debited 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 \$513,388,000. The difference between the assigned receivable balances over the nominal value of \$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, 18 June 2019 and 30 July 2019, the Group completed the disposal of 30% equity interest in Daoyue, 20% equity interest in Yuanque, 10% equity interest in Healthy Wine and 3% equity interest in Healthy Wine respectively. The differences between the fair value of consideration receivables and the net book value of subsidiaries and other directly related transaction costs were recorded in "Other reserve".

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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 and 30 July 2019 respectively (the "Grant Dates"). Subsequently the restricted shares were allotted to the selected participants. Selected participants are entitled to the related distribution derived from the relevant restricted shares during the period from the dates of the allotted of the restricted shares to the vesting dates (both dates inclusive) of such restricted shares.

The above transactions were considered as equity-settled share-based payments to employees. Share-based payment expenses of \$802,000 were recognised for the period ended 30 June 2020 (2019: \$2,355,000).

(v) Exchange reserve

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

(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 2020 (six months ended 30 June 2019: Nil).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(C) DIVIDENDS (CONTINUED)

- (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 | |
|---|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 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 | – | 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

15 COMMITMENTS

At 30 June 2020, the Group had no capital commitments outstanding not provided for in the interim financial report (31 December 2019: Nil).

16 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 INDIVIDUALS AND COMPANIES ARE RELATED PARTIES OF THE GROUP:

| Name of party | Relationship |
|--|---|
| Mr Chan Yeung Nam * 陳陽南 | 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 |
| Hunan Huayu Xiaoxiang Liquor Co., Ltd. * 湖南華昱瀟湘酒業有限公司 | Associate of a subsidiary |
| Guizhou Huayu Shengqian Liquor Co., Ltd. * 貴州華昱深黔酒業有限公司 | Associate of a subsidiary |
| Henan Huayu Dingli Liquor Co., Ltd. * 河南華昱鼎立酒業有限公司 | Associate of a subsidiary |
| Beijing Huayu Shengjing Liquor Co., Ltd. * 北京華昱盛京酒業有限公司 | Associate of a subsidiary |
| Xinchuangjian (Guangdong) Investment Co., Ltd. * 新創建(廣東)投資有限公司 | Shareholder with significant influence on a subsidiary |
| Guizhou Ruoshui Fangyuan Investment Management Co., Ltd. * 貴州若水方圓投資管理有限公司 | Shareholder with significant influence on a subsidiary |
| Mr Ran Changxian * 冉昌賢 | Shareholder with significant influence on subsidiaries |

* The English translation of the companies' or persons' names are for reference only. The official names of these companies and persons are in Chinese.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

16 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 | |
|---|--------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Sales to related companies | | |
| – Hunan Huayu Xiaoxiang Liquor Co., Ltd. | 18,051 | – |
| – Henan Huayu Dingli Liquor Co., Ltd. | 10,096 | – |
| – Beijing Huayu Shengjing Liquor Co., Ltd. | 4,911 | – |
| – Guizhou Huayu Shengqian Liquor Co., Ltd. | 4,438 | – |
| Expense paid on behalf of the Group by related companies | | |
| – Shenzhen Huayu Investment & Development (Group) Co., Ltd. | 243 | 452 |
| – Xinchuangjian (Guangdong) Investment Co., Ltd. | 126 | 133 |
| Advance from a related company | | |
| – Shenzhen Huayu Investment & Development (Group) Co., Ltd. | – | 4,632 |
| Consideration of disposal of partial interests in a subsidiary from related companies | | |
| – Xinchuangjian (Guangdong) Investment Co., Ltd. | – | 394,012 |
| – Guizhou Ruoshui Fangyuan Investment Management Co., Ltd. | – | 811 |
| Repayment to Shenzhen Huayu Investment & Development (Group) Co., Ltd. | – | 232,364 |
| Borrowing from Xinchuangjian (Guangdong) Investment Co., Ltd. | – | 112,522 |
| Interest on borrowing from Xinchuangjian (Guangdong) Investment Co., Ltd. | 2,185 | 2,227 |

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

16 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(C) BALANCES WITH RELATED PARTIES

As at 30 June 2020 and 31 December 2019, the Group had the following balances with related parties:

| | At 30 June 2020 HK\$'000 | At 31 December 2019 HK\$'000 |
|---|-----------------------------------|---------------------------------------|
| Amounts due from related parties | | |
| – Guizhou Ruoshui Fangyuan Investment Management Co., Ltd. | 350 | 5,916 |
| – Mr Ran Changxian | 4,380 | 4,466 |
| Amounts due to related parties | | |
| – Shenzhen Huayu Investment & Development (Group) Co., Ltd. | (373) | (302) |
| – Xinchuangjian (Guangdong) Investment Co., Ltd. | (63) | (64) |
| – Hunan Huayu Xiaoxiang Liquor Co., Ltd. | – | (392) |
| Contract liabilities | | |
| – Hunan Huayu Xiaoxiang Liquor Co., Ltd. | (55) | – |
| – Guizhou Huayu Shenqian Liquor Co., Ltd. | (706) | – |
| – Henan Huayu Dingli Liquor Co., Ltd. | (3,342) | – |
| – Beijing Huayu Shengjing Liquor Co., Ltd. | (1,922) | – |
| Amount due to the controlling shareholder of the Company (Note 1) | (101,976) | (101,976) |
| Other borrowing from a related company | | |
| – Xinchuangjian (Guangdong) Investment Co., Ltd. | (106,381) | (108,470) |
| Interest payable on borrowing from a related company | | |
| – Xinchuangjian (Guangdong) Investment Co., Ltd. | (2,105) | (4,780) |
| | (212,193) | (205,602) |

Note 1: Balance with the controlling shareholder represented advance made from the controlling shareholder of the Group. This advance is unsecured and interest-free.